

ORIGINAL

-Application

Select Specialty

Hospital

NKnoxville

CN1312-047

December 2, 2013

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: CON Application Submittal
Select Specialty Hospital--North Knoxville
Knox County

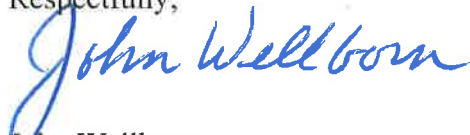
Dear Mrs. Hill:

This letter transmits an original and two copies of the subject application. The affidavit and filing fee are enclosed.

This project is to relocate an existing Long Term Acute Care Hospital within Knox County. It does not propose to change the facility's licensed bed complement, scope of services, home county, service area, accessibility, ownership, or management. For those reasons, the applicant respectfully requests that it be scheduled for consent calendar review.

I am the contact person for this project. Byron Trauger is legal counsel. Please advise me of any additional information you may need. We look forward to working with the Agency on this project.

Respectfully,



John Wellborn
Consultant

NOTICE **Residential** **Contractors**

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NOTIFICATION OF INTENT **TO APPLY FOR A CERTIFICATE OF NEED**

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Select Specialty Hospital-North Knoxville (a long term acute care hospital), owned and managed by Select Specialty Hospital-North Knoxville, Inc. (a corporation), intends to file an application for a Certificate of Need to relocate within Knox County from its present address at 900 East Oak Hill Avenue, 4th Floor, Knoxville, TN 37917, to leased space at North Knoxville Medical Center, Physicians Plaza B, First (Middle) Floor, 7557-B Donnaner Drive, Powell, TN 37849. The proposed location is a medical office building on the campus of Tennessee Health-Care-North Knoxville Medical Center. The project cost for CON purposes, which includes the value of space being leased, is estimated at \$13,910,744. Select Specialty Hospital-North Knoxville is licensed by the Board for Licensing Health Care Facilities for thirty-three (33) long term acute care beds. Its licensed bed complement will remain the same at the new location. The project does not include any major medical equipment and it will not add or discontinue any other significant health service.

The anticipated date of filing the application is on or before December 6, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 421 Hillsboro Road, Suite 210, Nashville, TN 37215; (615) 665-2022.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Tennessee Health Services
and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Pursuant to TCA Sec. 68-11-1607(c)(1): (A) any health care institution wishing to oppose a Certificate of Need application must file a written objection with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

This instrument prepared by
ROBERT MOYERS, Manager
Neighborhood Codes Enforcement
400 Main Street, #465
Knoxville, Tennessee 37902

ORDER

FROM: DAVID BRACE, PUBLIC OFFICER
FOR THE CITY OF KNOXVILLE

TO: SHARON WELLS, ADDRESS
UNKNOWN

J. MICHAEL WINCHESTER, TRUSTEE,
800 SOUTH GAY STREET, SUITE 1000,
KNOXVILLE, TENNESSEE 37929

FT. REALTY SECURITIES TRUST II, P.O.
BOX 132, MEMPHIS, TENNESSEE 38101

FIRST TENNESSEE BANK NATIONAL
ASSOCIATION, 800 SOUTH GAY STREET,
KNOXVILLE, TENNESSEE 37929

RAYMOND A. MORRIS, DECEASED

RE: 3817 WAYNE DRIVE INCLUDING
ACCESSORY STRUCTURE
CLT# 070K-B-004

This matter came to be heard before the Public Officer for the City of Knoxville, on the 17th day of November, 2013. After stating the charges set forth in the Complaint filed on the 17th day of October, 2013, the Public Officer called for proof and defense of the allegations stated therein.

Charge: This structure is in violation of Article VI of the Knoxville City Code and of the International Property Maintenance Code rendering it unfit for human habitation.

Evidence: Pictures, file, and testimony of Robert Moyers, Manager, Neighborhood Codes Enforcement.

Findings of Fact: That the structure is in violation of numerous portions of the Building Code of the City of Knoxville, to wit:

a. The structure is out of compliance with the Codes for the City of Knoxville

b. The structure is an attractive nuisance.

c. The structure is dangerous and injurious to the health and safety of the occupants and the public.

Conclusions of Law: The property constitutes an unfit dwelling within the meaning of Section 6-143 of the Knoxville City Code and is unfit for human habitation within the meaning of Section 108 of the International Property Maintenance Code; specifically, the building is so damaged, decayed, dilapidated, unsanitary, unsafe, and vermin-infested that it creates a serious hazard to the health and safety of the occupants or the public, and lacks illumination, ventilation, or sanitation facilities adequate to protect the health or safety of the occupants or the public.

IT IS, THEREFORE, ORDERED that the owner of the buildings located at 3817 WAYNE DRIVE INCLUDING ACCESSORY

NOTICE TO CREDITORS

ESTATE OF
HARRY L. KENNEDY
DOCKET NUMBER 74366-1

Notice is hereby given that on the 26th day of November, 2013, letters testamentary in respect of the Estate of

HARRY L. KENNEDY

who died Nov 11, 2013, were issued the undersigned by the Clerk and Master of the Chancery Court of Knox County, Tennessee. All persons, resident and non-resident, having claims, matured or unmatured, against his or her estate are required to file the same with the Clerk and Master of the above named Court on or before the earlier of the dates prescribed in (1) or (2) otherwise their claims will be forever barred.

(1)(A) Four (4) months from the date of the first publication of this notice if the creditor received an actual copy of this notice to creditors at least sixty (60) days before the date that is four (4) months from the date of this first publication; or

(B) Sixty (60) days from the date the creditor received an actual copy of the notice to creditors if the creditor received the copy of the notice less than sixty (60) days prior to the date that is four (4) months from the date of first publication as described in (1)(A); or

(2) Twelve (12) months from the decedent's date of death.

This the 26th day of November, 2013.

Estate of HARRY L. KENNEDY

PERSONAL REPRESENTATIVE(S):

Penny L. Latta; Executrix
6937 Chartwell Road
Knoxville, TN 37931

Roy L. Aaron
Attorney-at-Law
P.O. Box 869
Knoxville, TN 37931

Publish: 12/1/13 and 12/8/13

CERTIFICATE OF COMPLIANCE

Take notice that Jared W Jordan 1631 Courts Meadow Cove Collierville, TN 38017 And David D Stevens 1441 Nighthawk Pointe Naples, FL 34105 has applied to Farragut, TN for a Certificate of Compliance and has or will apply Tennessee Alcoholic Beverage Commission at Nashville for a retail Liquor License for a store to be named Campbell Station Wine & Spirits and to be located at 707 North Campbell Station Road Farragut, TN 37934 and owned by DSJJ, LLC 1631 Courts Meadow Cove Collierville, TN 38017.

All Persons wishing to be heard on the Certificate of Compliance may personally, or through counsel, submit their view in writing at 11408 Municipal Center Drive, Farragut, TN on December 12, 2013 at 7:00 PM.

The Tennessee Alcoholic Beverage Commission will consider the application at a date to be set by the Tennessee Alcoholic Beverage Commission in Nashville, Tennessee. Interested persons may personally, or through counsel, submit their views in writing by the hearing date to be scheduled by the ABC.

Anyone with questions concerning this application or the laws relating to it may call or write the Alcoholic Beverage Commission at 4220 Whittle Springs Road, Knoxville, TN 37917 or call (865)-594-6342.

This instrument prepared by
ROBERT MOYERS, Manager
Neighborhood Codes Enforcement
400 Main Street, #465
Knoxville, Tennessee 37902

ORDER

FROM: DAVID BRACE, PUBLIC OFFICER
FOR THE CITY OF KNOXVILLE

**SELECT SPECIALTY HOSPITAL--
NORTH KNOXVILLE**

**CERTIFICATE OF NEED APPLICATION
TO RELOCATE TO
NORTH KNOXVILLE MEDICAL CENTER
IN POWELL**

Filed December 2013



PART A

1. Name of Facility, Agency, or Institution

Select Specialty Hospital--North Knoxville		
<i>Name</i>		
North Knoxville Medical Center, Physicians Plaza B, 1 st (Middle) Floor		
7557-B Dannaher Drive		
<i>Street or Route</i>		<i>County</i>
Powell	TN	37849
<i>City</i>	<i>State</i>	<i>Zip Code</i>

2. Contact Person Available for Responses to Questions

John Wellborn		Consultant	
<i>Name</i>		<i>Title</i>	
Development Support Group		jwdsg@comcast.net	
<i>Company Name</i>		<i>E-Mail Address</i>	
4219 Hillsboro Road, Suite 210	Nashville	TN	37215
<i>Street or Route</i>	<i>City</i>	<i>State</i>	<i>Zip Code</i>
CON Consultant	615-665-2022	615-665-2042	
<i>Association With Owner</i>	<i>Phone Number</i>	<i>Fax Number</i>	

3. Owner of the Facility, Agency, or Institution

Select Specialty Hospital--North Knoxville, Inc.	
<i>Name</i>	
900 East Oak Hill Avenue, 4 th Floor	Knox
<i>Street or Route</i>	<i>County</i>
Knoxville	TN 37917
<i>City</i>	<i>State</i> <i>Zip Code</i>

4. Type of Ownership or Control (Check One)

A. Sole Proprietorship		F. Government (State of TN or Political Subdivision)	
B. Partnership		G. Joint Venture	
C. Limited Partnership		H. Limited Liability Company	
D. Corporation (For-Profit)	x	I. Other (Specify):	
E. Corporation (Not-for-Profit)			

**PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND
REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS**

5. Name of Management/Operating Entity (If Applicable) **NA**

<i>Name</i>		
<i>Street or Route</i>	<i>County</i>	
<i>City</i>	<i>State</i>	<i>Zip Code</i>

6. Legal Interest in the Site of the Institution (Check One)

A. Ownership	<input type="checkbox"/>	D. Option to Lease	<input type="checkbox"/>
B. Option to Purchase	<input type="checkbox"/>	E. Other (Specify):	<input type="checkbox"/>
C. Lease of 10 Years	<input checked="" type="checkbox"/>		<input type="checkbox"/>

7. Type of Institution (Check as appropriate—more than one may apply)

A. Hospital (Specify): LT Acute	<input checked="" type="checkbox"/>	I. Nursing Home	<input type="checkbox"/>
B. Ambulatory Surgical Treatment Center (ASTC) Multi-Specialty	<input type="checkbox"/>	J. Outpatient Diagnostic Center	<input type="checkbox"/>
C. ASTC, Single Specialty	<input type="checkbox"/>	K. Recuperation Center	<input type="checkbox"/>
D. Home Health Agency	<input type="checkbox"/>	L. Rehabilitation Center	<input type="checkbox"/>
E. Hospice	<input type="checkbox"/>	M. Residential Hospice	<input type="checkbox"/>
F. Mental Health Hospital	<input type="checkbox"/>	N. Non-Residential Methadone	<input type="checkbox"/>
G. Mental Health Residential Facility	<input type="checkbox"/>	O. Birthing Center	<input type="checkbox"/>
H. Mental Retardation Institutional Habilitation Facility (ICF/MR)	<input type="checkbox"/>	P. Other Outpatient Facility (Specify):	<input type="checkbox"/>
	<input type="checkbox"/>	Q. Other (Specify):	<input type="checkbox"/>

8. Purpose of Review (Check as appropriate—more than one may apply)

A. New Institution	<input type="checkbox"/>	G. Change in Bed Complement Please underline the type of Change: Increase, Decrease, Designation, Distribution, Conversion, Relocation	<input type="checkbox"/>
B. Replacement/Existing Facility	<input checked="" type="checkbox"/>	H. Change of Location	<input checked="" type="checkbox"/>
C. Modification/Existing Facility	<input type="checkbox"/>	I. Other (Specify):	<input type="checkbox"/>
D. Initiation of Health Care Service as defined in TCA Sec 68-11-1607(4) (Specify)	<input type="checkbox"/>		<input type="checkbox"/>
E. Discontinuance of OB Service	<input type="checkbox"/>		<input type="checkbox"/>
F. Acquisition of Equipment	<input type="checkbox"/>		<input type="checkbox"/>

9. Bed Complement Data

(Please indicate current and proposed distribution and certification of facility beds.)

	Current Licensed Beds	CON approved beds (not in service)	Staffed Beds	Beds Proposed (Change)	TOTAL Beds at Completion
A. Medical					
B. Surgical					
C. Long Term Care Hosp.	33	0	33	0	33
D. Obsetrical					
E. ICU/CCU					
F. Neonatal					
G. Pediatric					
H. Adult Psychiatric					
I. Geriatric Psychiatric					
J. Child/Adolesc. Psych.					
K. Rehabilitation					
L. Nursing Facility (non-Medicaid certified)					
M. Nursing Facility Lev. 1 (Medicaid only)					
N. Nursing Facility Lev. 2 (Medicare only)					
O Nursing Facility Lev. 2 (dually certified for Medicare & Medicaid)					
P. ICF/MR					
Q. Adult Chemical Dependency					
R. Child/Adolescent Chemical Dependency					
S. Swing Beds					
T. Mental Health Residential Treatment					
U. Residential Hospice					
TOTAL	33	0	33	0	33

10. Medicare Provider Number:	442015
Certification Type:	Acute Care Hospital, Long Term
11. Medicaid Provider Number:	044215
Certification Type:	Acute Care Hospital, Long Term

12. & 13. See page 4

A.12. IF THIS IS A NEW FACILITY, WILL CERTIFICATION BE SOUGHT FOR MEDICARE AND/OR MEDICAID?

This is an existing long term acute care facility that is already contracted to both Medicare and TennCare/Medicaid.

A.13. IDENTIFY ALL TENNCARE MANAGED CARE ORGANIZATIONS / BEHAVIORAL HEALTH ORGANIZATIONS (MCO'S/BHO'S) OPERATING IN THE PROPOSED SERVICE AREA. WILL THIS PROJECT INVOLVE THE TREATMENT OF TENNCARE PARTICIPANTS? Yes IF THE RESPONSE TO THIS ITEM IS YES, PLEASE IDENTIFY ALL MCO'S WITH WHICH THE APPLICANT HAS CONTRACTED OR PLANS TO CONTRACT.

DISCUSS ANY OUT-OF-NETWORK RELATIONSHIPS IN PLACE WITH MCO'S/BHO'S IN THE AREA.

The majority of long term acute care hospital ("LTACH") admissions are Medicare-age patients, some of whom are also Medicaid-eligible. During the 12 months from November 2012 through October 2013, approximately 79.5% of gross charges were billed to Medicare.

The applicant also contracts with the TennCare MCO's listed below. During the past twelve months approximately 5.8% of this hospital's gross charges were billed to Medicaid.

Table One: Current Contractual Relationships with Service Area MCO's	
Available TennCare MCO's	Applicant's Relationship
BlueCare	contracted
United Community Healthcare Plan (formerly AmeriChoice)	not contracted, but have pursued contract
Select	not contracted

SECTION B: PROJECT DESCRIPTION

B.I. PROVIDE A BRIEF EXECUTIVE SUMMARY OF THE PROJECT NOT TO EXCEED TWO PAGES. TOPICS TO BE INCLUDED IN THE EXECUTIVE SUMMARY ARE A BRIEF DESCRIPTION OF PROPOSED SERVICES AND EQUIPMENT, OWNERSHIP STRUCTURE, SERVICE AREA, NEED, EXISTING RESOURCES, PROJECT COST, FUNDING, FINANCIAL FEASIBILITY AND STAFFING.

Proposed Services and Equipment

- The applicant, Select Specialty Hospital--North Knoxville, is a 33-bed Long Term Acute Care Hospital ("LTACH"). That is a special category of small, Medicare-certified hospitals. They admit primarily (but not only) vulnerable Medicare patients who need prolonged inpatient acute care (25+ days), after discharge from an initial acute care stay at a general hospital. They also contract with Medicaid. For example, at this hospital almost 6% of the patient days provided in the past 12 months have been Medicaid days.
- This application proposes to relocate Select Specialty Hospital--North Knoxville within Knox County. The hospital currently leases and licenses a fourth-floor unit of 33 beds in Tennova Healthcare's tertiary care hospital at 900 East Oak Hill Avenue (a former Mercy/St. Mary's facility). The applicant is proposing to move its licensed operation to leased space in a medical office building on the campus of Tennova's much newer North Knoxville Medical Center in Powell. No change in ownership, licensee, licensed bed complement, scope of services, or service area will occur. This is only a relocation of an existing licensed facility within the same "host hospital" system, within the same county.

Ownership Structure

- The applicant facility is owned and operated by Select Specialty Hospital--North Knoxville, Inc., a Missouri corporation. Its ultimate parent organization is Select Medical Holdings Corporation, a Delaware public company traded on the New York Stock Exchange.
- The facility is self-managed. It has no management contract with its parent company. The parent company provides certain support services to its hospitals, for which the hospitals are billed as "management fees", but at Select that is a practical business term and does not indicate a legal relationship other than normal parent-subsidiary ownership.
- The Select Specialty group of facilities is Tennessee's largest provider of long term acute care hospital ("LTACH") services. Select owns and operates five of the seven LTACH's in Tennessee: one in Kingsport, two in Knoxville, one in Nashville, and one in Memphis. All are on the campuses of urban medical centers that provide them with ancillary and support services. (For example, the applicant's sister facility in Knoxville is on the Covenant/Fort Sanders campus). Attachment A.4 contains a list of Select's Tennessee facilities, and additional information on the national company.

Service Area

- The primary service area of the project consists of twelve counties surrounding Knoxville: Knox, Sevier, Jefferson, Hamblen, Roane, Cocke, Blount, Loudon, Campbell,

Anderson, Scott, and Claiborne Counties. They contributed 86.4% of the applicant's admissions in the 12 months preceding the filing of this application.

Need

- The applicant currently leases and licenses a 33-bed unit on the fourth floor of Tennova Healthcare's tertiary hospital on East Oak Hill Avenue. Tennova has announced an intention to seek CON approval to move most of this hospital's beds and services to a different location in Knox County. Select Specialty has identified an opportunity to move immediately to Tennova's newest campus in Powell, farther north in Knox County. This is an excellent opportunity for Select Specialty, whether or not Tennova ever moves its tertiary facility.
- At its current location, Select has only 5 private rooms in its total complement of 33 licensed beds. It must often use semi-private rooms as single rooms, to isolate infectious patients or to separate patients of different genders. In periods of high demand, this can result in deferred admissions of patients needing to transfer to Select from short-term acute care hospitals. AIA design standards now recommend that hospitals have private rooms; and this is also a standard of care now in this community. At the North Knoxville facility, Select will have all private beds, enabling it to utilize its 33 beds more completely and efficiently. At the new location, patient rooms will also be larger, making it easier to serve ventilator and dialysis patients, and giving patients a more comfortable experience in their weeks of care. This newer building will not have the problems of temperature control, or water leakage problems around windows, that Select currently experiences in its wing of the much older East Oak Hill Avenue building.

Existing Resources

- The only other LTACH in East Tennessee is the applicant's sister hospital, located at Covenant Health's Fort Sanders campus. The closest other LTACH's are in Chattanooga (Hamilton County) in Southeast Tennessee, Kingsport (Sullivan County) in Upper East Tennessee, and in Nashville (Davidson County) in Central Middle Tennessee--which are more than an hour and a half drive from Knoxville.

Project Cost, Funding, Financial Feasibility, and Staffing

- The project cost for CON purposes, which includes the market value of the space being leased, is estimated at \$13,910,744. The actual capital cost, exclusive of leased space, is estimated at \$6,676,541.
- The applicant will fund the project in cash, using a reserve fund held on its behalf at the parent company.
- The applicant's facility currently operates with a positive margin, and will continue to have a positive margin in its new location.
- No new staff will be required by the relocation of the project.

B.II. PROVIDE A DETAILED NARRATIVE OF THE PROJECT BY ADDRESSING THE FOLLOWING ITEMS AS THEY RELATE TO THE PROPOSAL.

B.II.A. DESCRIBE THE CONSTRUCTION, MODIFICATION AND/OR RENOVATION OF THE FACILITY (EXCLUSIVE OF MAJOR MEDICAL EQUIPMENT COVERED BY T.C.A. 68-11-1601 *et seq.*) INCLUDING SQUARE FOOTAGE, MAJOR OPERATIONAL AREAS, ROOM CONFIGURATION, ETC.

Tennova's North Knoxville Medical Center has a 62-acre campus in the unincorporated community of Powell, in northern Knox County. On that campus is a medical office building (MOB) named Physician's Plaza B. On the first (middle) floor of that building, Select Specialty will lease a shelled-in area of approximately 23,624 usable square feet (USF), for build-out as a licensed Long Term Acute Care Hospital (LTACH). With use of common areas included, the lease will be for 25,701 rentable square feet (RSF). This LTACH will be the new location for Select Specialty Hospital--North Knoxville, which currently is on the fourth floor of Tennova's tertiary care hospital on East Oak Hill Avenue in Knoxville, 8.2 miles to the south.

The LTACH will be an independently licensed long term acute care hospital, with thirty-three (33) private patient rooms, supervised by two nursing stations. It will have its own admitting, medical records, therapy, and pharmacy areas, dayrooms, a family lounge, and appropriate support spaces. It will contract with the host hospital, North Knoxville Medical Center, to provide its patients with laboratory, imaging, surgery, dietary, and other services. Outside vendors may be contracted to provide housekeeping/janitorial, dialysis, and certain other services.

Table Two-A: Summary of Construction and Changes in Size	
	Total Square Feet
Usable Square Feet in Space Being Leased	23,624 USF
Area of New Construction	0
Area of Shelled Space Build-out	23,624 USF
Rentable SF Including Common Area Use	25,701 RSF

Table Two-B: Construction Costs of This Project			
	Buildout/Renovation Construction	New Construction	Total Project
Square Feet	23,624	0	23,624
Construction Cost	\$5,025,000	0	\$5,025,000
Constr. Cost PSF	\$212.71	0	\$212.71

If granted CON approval by the end of March, 2014, Select Specialty Hospital--North Knoxville will open at the proposed location no later than January 1, 2015. It will be licensed by the Board for Licensing Health Care Facilities as a 33-bed long term acute care hospital. It will be open 24 hours daily, throughout the year.

The applicant, Select Specialty Hospital--North Knoxville, Inc., is a Missouri corporation authorized to do business in Tennessee. It is wholly owned by Intensiva Healthcare Corporation (incorporated in Delaware), which is wholly owned by Select Medical Corporation (incorporated in Delaware), which is wholly owned by Select Medical Holdings Corporation (a publicly traded Delaware corporation).

The estimated project cost for CON purposes--which includes the market value of the MOB space being leased--is \$13,910,744. However, the actual capital cost will be \$6,676,541. It will be funded in cash by the applicant, using a reserve fund held on its behalf by the parent company.

APPLICANTS WITH HOSPITAL PROJECTS (CONSTRUCTION COST IN EXCESS OF \$5 MILLION) AND OTHER FACILITY PROJECTS (CONSTRUCTION COST IN EXCESS OF \$2 MILLION) SHOULD COMPLETE THE SQUARE FOOTAGE AND COSTS PER SQUARE FOOTAGE CHART.

UTILIZING THE ATTACHED CHART, APPLICANTS WITH HOSPITAL PROJECTS SHOULD COMPLETE PARTS A-E BY IDENTIFYING, AS APPLICABLE, NURSING UNITS, ANCILLARY AREAS, AND SUPPORT AREAS AFFECTED BY THIS PROJECT. PROVIDE THE LOCATION OF THE UNIT/SERVICE WITHIN THE EXISTING FACILITY ALONG WITH CURRENT SQUARE FOOTAGE, WHERE, IF ANY, THE UNIT/SERVICE WILL RELOCATE TEMPORARILY DURING CONSTRUCTION AND RENOVATION, AND THEN THE LOCATION OF THE UNIT/SERVICE WITH PROPOSED SQUARE FOOTAGE. THE TOTAL COST PER SQUARE FOOT SHOULD PROVIDE A BREAKOUT BETWEEN NEW CONSTRUCTION AND RENOVATION COST PER SQUARE FOOT. OTHER FACILITY PROJECTS NEED ONLY COMPLETE PARTS B-E.

See Attachment B.II.A for this chart.

PLEASE ALSO DISCUSS AND JUSTIFY THE COST PER SQUARE FOOT FOR THIS PROJECT.

Hospital construction projects approved by the HSDA in 2010-12 projected the following construction costs per SF:

Table Three: Hospital Construction Cost PSF Years: 2010 – 2012			
	Renovated Construction	New Construction	Total Construction
1 st Quartile	\$99.12/sq ft	\$234.64/sq ft	\$167.99/sq ft
Median	\$177.60/sq ft	\$259.66/sq ft	\$235.00/sq ft
3 rd Quartile	\$249.00/sq ft	\$307.80/sq ft	\$274.63/sq ft

Source: HSDA Registry, for approved CON applications 2010-2012,

Select Specialty's estimated renovation cost for this project is approximately \$212.71 PSF. That is consistent with the Statewide costs shown above, which range from \$99.12 to \$249 PSF for renovation.

IF THE PROJECT INVOLVES NONE OF THE ABOVE, DESCRIBE THE DEVELOPMENT OF THE PROPOSAL.

Not applicable.

B.II.B. IDENTIFY THE NUMBER AND TYPE OF BEDS INCREASED, DECREASED, CONVERTED, RELOCATED, DESIGNATED, AND/OR REDISTRIBUTED BY THIS APPLICATION. DESCRIBE THE REASONS FOR CHANGE IN BED ALLOCATIONS AND DESCRIBE THE IMPACT THE BED CHANGE WILL HAVE ON EXISTING SERVICES.

All thirty-three licensed acute care beds will be relocated in this project. The licensed complement will not change.

Table Four: Proposed Changes in Assignment of Licensed Hospital Beds Select Specialty Hospital--North Knoxville		
Licensed /Assigned Beds	Current	Proposed
Total Licensed Beds	33	33
Long Term Acute Care	33	33

B.II.C. AS THE APPLICANT, DESCRIBE YOUR NEED TO PROVIDE THE FOLLOWING HEALTH CARE SERVICES (IF APPLICABLE TO THIS APPLICATION):

- 1. ADULT PSYCHIATRIC SERVICES**
- 2. ALCOHOL AND DRUG TREATMENT ADOLESCENTS >28 DAYS**
- 3. BIRTHING CENTER**
- 4. BURN UNITS**
- 5. CARDIAC CATHETERIZATION SERVICES**
- 6. CHILD AND ADOLESCENT PSYCHIATRIC SERVICES**
- 7. EXTRACORPOREAL LITHOTRIPSY**
- 8. HOME HEALTH SERVICES**
- 9. HOSPICE SERVICES**
- 10. RESIDENTIAL HOSPICE**
- 11. ICF/MR SERVICES**
- 12. LONG TERM CARE SERVICES.....**

Not applicable.

B.II.D. DESCRIBE THE NEED TO CHANGE LOCATION OR REPLACE AN EXISTING FACILITY.

The Tennova Healthcare System, which owns the hospital where Select currently is located, has told Select that it will request CON approval to relocate most of the beds and services at that hospital to another location in Knox County. In anticipation of that, and to secure improved physical facilities at an acceptable lease cost, Select is proposing to move to medical office building (MOB) space that is now available on Tennova's North Knoxville Medical Center campus in Powell, several miles north. To move immediately will ensure Select Specialty Hospital--North Knoxville's continued presence in Knox County, and its continued relationships to Tennova and other hospitals in Knox County. Prompt relocation is prudent, while there is space at the north Knoxville campus. If most of its current host hospital moves away, it would not be feasible for an LTACH to remain at a location that might not provide daily access to diagnostic imaging, surgery, and specialist coverage and consultations.

The uncertainties about future availability of those support services are an important motivation for this application. Yet, even if Tennova does not relocate most of the host hospital, there are several advantages to Select's proposed relocation.

First, it will give Select access to more private rooms. Currently, it has only 5 private beds--only 15% of its 33-bed complement. The new location would be 100% private rooms. With more private beds, Select could fill more of its beds in times of peak demand. At the present location, semiprivate rooms must often be restricted to single occupancy in order to isolate infectious patients, or to separate patients of different genders. When referring physicians at area hospitals need to discharge patients to the Select facility, but find no beds available, this concerns them and concerns their patients' families. It also concerns the discharging hospitals, who may have to hold patients longer than appropriate while waiting for an LTACH bed to become available.

Second, the newer rooms that Select will create at the North Knoxville campus will be larger than the ones at its current location. The patient beds will have more space around them, making it more comfortable for staff and visitors to move within the room. This is also beneficial for patients who need large equipment in the room--such as dialysis patients and ventilator patients. And newer, more spacious rooms will be more cheerful to patients who must occupy these beds for weeks at a time. Such larger, private accommodations have become a standard of care in the community, and are recommended by AIA design standards adopted by the Board for Licensing Health Care Facilities (Tennessee Department of Health).

Third, the LTACH is now located on the top floor of the oldest wing of its host hospital. The building has structural problems that allow rain to seep through ceilings and windows, damaging plaster that must be frequently repaired, and increasing labor costs.

Fourth, it is difficult in this old hospital wing to adequately control heat and air conditioning in patient rooms. Inability to closely regulate room temperature is not optimal for the care of fragile patients.

The potential to improve operational efficiency and functionality at the new site, combined with the obvious necessity to relocate from a facility that may well close in a few years, make this a much-needed and very appropriate relocation project.

B.II.E. DESCRIBE THE ACQUISITION OF ANY ITEM OF MAJOR MEDICAL EQUIPMENT (AS DEFINED BY THE AGENCY RULES AND THE STATUTE) WHICH EXCEEDS A COST OF \$1.5 MILLION; AND/OR IS A MAGNETIC RESONANCE IMAGING SCANNER (MRI), POSITRON EMISSION TOMOGRAPHY (PET) SCANNER, EXTRACORPOREAL LITHOTRIPTER AND/OR LINEAR ACCELERATOR BY RESPONDING TO THE FOLLOWING:

1. For fixed site major medical equipment (not replacing existing equipment):
 - a. Describe the new equipment, including:
 1. Total Cost (As defined by Agency Rule);
 2. Expected Useful Life;
 3. List of clinical applications to be provided; and
 4. Documentation of FDA approval.
 - b. Provide current and proposed schedule of operations.
2. For mobile major medical equipment:
 - a. List all sites that will be served;
 - b. Provide current and/or proposed schedule of operations;
 - c. Provide the lease or contract cost;
 - d. Provide the fair market value of the equipment; and
 - e. List the owner for the equipment.
3. Indicate applicant's legal interest in equipment (e.g., purchase, lease, etc.) In the case of equipment purchase, include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Not applicable. The project contains no major medical equipment.

B.III.A. ATTACH A COPY OF THE PLOT PLAN OF THE SITE ON AN 8-1/2" X 11" SHEET OF WHITE PAPER WHICH MUST INCLUDE:

1. SIZE OF SITE (IN ACRES);
2. LOCATION OF STRUCTURE ON THE SITE;
3. LOCATION OF THE PROPOSED CONSTRUCTION; AND
4. NAMES OF STREETS, ROADS OR HIGHWAYS THAT CROSS OR BORDER THE SITE.

PLEASE NOTE THAT THE DRAWINGS DO NOT NEED TO BE DRAWN TO SCALE. PLOT PLANS ARE REQUIRED FOR ALL PROJECTS.

See Attachment B.III.A.

B.III.B.1. DESCRIBE THE RELATIONSHIP OF THE SITE TO PUBLIC TRANSPORTATION ROUTES, IF ANY, AND TO ANY HIGHWAY OR MAJOR ROAD DEVELOPMENTS IN THE AREA. DESCRIBE THE ACCESSIBILITY OF THE PROPOSED SITE TO PATIENTS/CLIENTS.

The site is within ¾ of a mile of Exit 112 on I-75, north of downtown Knoxville. It is on the campus of North Knoxville Medical Center, a well-known hospital in the area. The interstate provides rapid access to residents of the entire primary service area. Table Five below shows that the new site is within 60 minutes' drive of the principal communities in all eleven of the primary service area counties around Knox County. The unweighted average drive time from those communities to the proposed site is 2 minutes longer than to Select's current location. But this is not significant, because the great majority of patients admitted to Select Specialty Hospitals are transported directly from acute care hospitals in Knox County itself, not from their county of residence. In January through October of CY2013, approximately 84.5% of this LTACH's admissions were transported directly from a Knox County general hospital. For family members visiting patients, drive time can be a significant issue; but fortunately the difference in this situation (two minutes) will be negligible.

Table Five: Mileage and Drive Times From Select Specialty Hospital--North Knoxville's Current and Proposed Sites to Major Communities in the Primary Service Area Outside of Knox County					
County	City	To Proposed Site		To Current Site	
		Miles	Minutes	Miles	Minutes
Anderson	Oak Ridge	19.4	31	26.4	31
Blount	Maryville	25.0	34	19.6	28
Campbell	LaFollette	31.3	35	38.3	43
Claiborne	Tazewell	41.4	58	43.5	62
Cocke	Newport	55.3	57	48.2	50
Hamblen	Morristown	55.0	58	47.9	52
Jefferson	Jefferson City	35.4	46	28.3	39
Loudon	Loudon	39.8	48	36.5	44
Roane	Kingston	41.3	42	38.0	38
Scott	Oneida	53.4	60	60.3	67
Sevier	Sevierville	35.8	44	28.7	37
Unweighted Average Time			46.6 min.		44.6 min.

Source: Google Maps, 11-21-13

B.IV. ATTACH A FLOOR PLAN DRAWING FOR THE FACILITY WHICH INCLUDES PATIENT CARE ROOMS (NOTING PRIVATE OR SEMI-PRIVATE), ANCILLARY AREAS, EQUIPMENT AREAS, ETC.

See attachment B.IV.

IV. FOR A HOME CARE ORGANIZATION, IDENTIFY

- 1. EXISTING SERVICE AREA (BY COUNTY);**
- 2. PROPOSED SERVICE AREA (BY COUNTY);**
- 3. A PARENT OR PRIMARY SERVICE PROVIDER;**
- 4. EXISTING BRANCHES AND/OR SUB-UNITS; AND**
- 5. PROPOSED BRANCHES AND/OR SUBUNITS.**

Not applicable. The application is not for a home care organization.

C(I) NEED

C(I).1. DESCRIBE THE RELATIONSHIP OF THIS PROPOSAL TO THE IMPLEMENTATION OF THE STATE HEALTH PLAN AND TENNESSEE'S HEALTH: GUIDELINES FOR GROWTH.

A. PLEASE PROVIDE A RESPONSE TO EACH CRITERION AND STANDARD IN CON CATEGORIES THAT ARE APPLICABLE TO THE PROPOSED PROJECT. DO NOT PROVIDE RESPONSES TO GENERAL CRITERIA AND STANDARDS (PAGES 6-9) HERE.

B. APPLICATIONS THAT INCLUDE A CHANGE OF SITE FOR A HEALTH CARE INSTITUTION, PROVIDE A RESPONSE TO GENERAL CRITERION AND STANDARDS (4)(a-c).

Project-Specific Review Criteria: Construction, Renovation, Expansion, and Replacement of Health Care Institutions

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

Not applicable. The proposed relocation will not change this hospital's scope of services or its licensed bed complement or bed assignment.

2. For relocation or replacement of an existing licensed healthcare institution:

a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

Not applicable. The applicant does not own its current premises on East Oak Hill Avenue. It leases it from another licensed hospital, a "host" hospital, which plans to vacate most of the East Oak Hill Avenue facility after obtaining CON approval to relocate most of its acute care beds and services to another location in Knox County.

b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant and its affiliated facility Select Specialty Hospital--Knoxville are the only two LTACH's in the Knoxville region. They are affiliated with the two largest hospital systems in the region: Tennova, the former Mercy system; and Covenant Health.

The two LTACH's currently operate 33 and 35 beds, respectively, which are utilized routinely at between 70% and 80% occupancy. The North facility, which proposes this relocation, has averaged approximately 77% occupancy over the past two years, and is averaging almost 78% occupancy this year. So there is a clear present and future demand for the project.

3. For renovation or expansion of an existing licensed healthcare institution:

a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

Not applicable.

b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

Not applicable.

General Criteria for Change of Site

(These may not be applicable to this situation, which involves an existing rather than a proposed new institution, but the following responses are offered.)

(4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, the Agency may consider, in addition to the foregoing factors, the following factors:

(a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed site.

The practical reason to relocate this hospital is that the applicant's landlord and host hospital has indicated a desire to close most of its services on East Oak Hill Avenue where the applicant currently leases space. If that occurs, it is not clear whether Select will continue to have 24/7 availability of on-site ancillary support services that are essential for long term acute care patients. So rather than take that risk, Select prefers to move immediately, while there is an excellent alternative space available on Tennova's Powell campus, in an MOB connected to a relatively new full-service general hospital that will offer 24/7 ancillary support services indefinitely.

(b) *Economic Factors.* The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

There is no significant travel time difference between the new site and the old site, for persons driving in from primary service area counties surrounding Knoxville. See Table Five and the related discussion, above. The proposed change of location for the LTACH will not raise accessibility issues or any other type of economic issue.

(c) *Contribution to the orderly development of health care facilities and/or services.* The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

No such delays can be identified. The MOB space proposed as the new LTACH location is shelled space. It is immediately available to lease and build out as a long term acute care hospital. The terms of the lease have been negotiated and the lease will be executed conditional on obtaining CON approval.

The Framework for Tennessee's Comprehensive State Health Plan

Five Principles for Achieving Better Health

The following Five Principles for Achieving Better Health serve as the basic framework for the State Health Plan. After each principle, the applicant states how this CON application supports the principle, if applicable.

1. Healthy Lives

The purpose of the State Health Plan is to improve the health of Tennesseans.

Every person's health is the result of the interaction of individual behaviors, society, the environment, economic factors, and our genetic endowment. The State Health Plan serves to facilitate the collaboration of organizations and their ideas to help address health at these many levels.

The eastern part of Tennessee has three distinct acute care regions--Upper East Tennessee centered on Tri-Cities, Southeast Tennessee centered on Chattanooga, and East Tennessee centered on Knoxville. Select Specialty Hospital--North Knoxville is one of only two LTACH facilities in the entire East Tennessee region. These two LTACH's play an important role in working with the region's short-term acute care hospitals. The LTACH's relieve general hospitals of the financial burden of providing weeks of costly, uncompensated care to hundreds of fragile patients who need acute care for many more days than the DRG system was designed to pay for. Collaboration with short term hospitals, to reduce costs of overall hospital care, requires available beds at the LTACH which is chosen by the patient and the discharging physician. This project supports that collaboration and supports this criterion of the State Health Plan. By increasing Select's private bed accommodations and its patient room sizes, without increasing its total bed license, the project will provide care in a more efficient, attractive, and functional setting.

2. Access to Care

Every citizen should have reasonable access to health care.

Many elements impact one's access to health care, including existing health status, employment, income, geography, and culture. The State Health Plan can provide standards for reasonable access, offer policy direction to improve access, and serve a coordinating role to expand health care access.

The project does not diminish either the physical or the financial accessibility of this established provider.

3. Economic Efficiencies

The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies and the continued development of the state's health care system. The State Health Plan should work to identify opportunities to improve the efficiency of the state's health care system and to encourage innovation and competition.

The project will increase the efficiency of this LTACH's operation by increasing its private room mix from 15% (5 beds) to 100% (33 beds). This will allow all beds to be available for admission without regard to issues of patient cross-infection or the need to separate patients of different gender. In periods of peak demand this will be helpful to patients needing to be discharged to Select from area general hospitals.

4. Quality of Care

Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers. Health care providers are held to certain professional standards by the state's licensure system. Many health care stakeholders are working to improve their quality of care through adoption of best practices and data-driven evaluation.

Select Specialty Hospital--North Knoxville complies with quality standards of State licensure and the Joint Commission. Also, by providing acute patients with private beds, this facility will be moving into compliance with AIA recommendations as well as community expectations, and will be lessening the risk of cross-infections.

5. Health Care Workforce

The state should support the development, recruitment, and retention of a sufficient and quality health care workforce. The state should consider developing a comprehensive approach to ensure the existence of a sufficient, qualified health care workforce, taking into account issues regarding the number of providers at all levels and in all specialty and focus areas, the number of professionals in teaching positions, the capacity of medical, nursing, allied health and other educational institutions, state and federal laws and regulations impacting capacity programs, and funding.

Select Specialty Hospital--North Knoxville contributes to the education of health care professionals by its affiliations for training students in programs at several colleges and universities in Tennessee. See Section C.III. (6) of this application.

C(I).2. DESCRIBE THE RELATIONSHIP OF THIS PROJECT TO THE APPLICANT'S LONG-RANGE DEVELOPMENT PLANS, IF ANY.

This facility does not prepare formal long-range development plans.

C(I).3. IDENTIFY THE PROPOSED SERVICE AREA AND JUSTIFY THE REASONABLENESS OF THAT PROPOSED AREA. SUBMIT A COUNTY-LEVEL MAP INCLUDING THE STATE OF TENNESSEE CLEARLY MARKED TO REFLECT THE SERVICE AREA. PLEASE SUBMIT THE MAP ON A 8-1/2" X 11" SHEET OF WHITE PAPER MARKED ONLY WITH INK DETECTABLE BY A STANDARD PHOTOCOPIER (I.E., NO HIGHLIGHTERS, PENCILS, ETC.).

Select Specialty Hospital--North Knoxville serves a wide region of counties around Knoxville. In the twelve months preceding the filing of this application, the facility admitted patients from 20 Tennessee counties and two other States. Approximately 86.4% of its admissions came from twelve counties surrounding Knoxville: Knox, Sevier, Jefferson, Hamblen, Roane, Cocke, Blount, Loudon, Campbell, Anderson, Scott, and Claiborne Counties.

The applicant believes that this group of counties will continue to be its primary service area. Table Six on the following page shows the admissions received this year from each of them and from the secondary service area, and uses the same percentages to project admissions for CY2015 and CY2016 at the proposed location at Tennova's North Knoxville Medical Center.

A service area map and a map showing the location of the service within the State of Tennessee are provided as Attachments C, Need--3 at the back of the application.

**Table Six: Patient Origin Projection
Select Specialty Hospital--North Knoxville
CY2015-CY2016**

County	Admissions Nov 2012 to Oct 2013	Percent of Total Admissions	Cumulative Percent of Total Admissions	Year One CY2015 Admissions	Year Two CY2016 Admissions
<i>Primary Service Area (PSA) Counties</i>					
Knox	133	36.04%	36.04%	138.8	140.2
Sevier	30	8.13%	44.17%	31.3	31.6
Jefferson	24	6.50%	50.68%	25.0	25.3
Hamblen	18	4.88%	55.56%	18.8	19.0
Roane	18	4.88%	60.43%	18.8	19.0
Cocke	17	4.61%	65.04%	17.7	17.9
Blount	16	4.34%	69.38%	16.7	16.9
Loudon	16	4.34%	73.71%	16.7	16.9
Campbell	15	4.07%	77.78%	15.7	15.8
Anderson	14	3.79%	81.57%	14.6	14.8
Scott	10	2.71%	84.28%	10.4	10.5
Claiborne	8	2.17%	86.45%	8.3	8.4
<i>PSA Subtotal</i>	319	86.45%		332.8	336.3
<i>Secondary Service Area (SSA) Counties and States</i>					
8 Other TN Counties	45	12.20%	86.45%	47.0	47.4
2 Other States	5	1.36%	87.80%	5.2	5.3
<i>SSA Subtotal</i>	50	13.55%		52.2	52.7
<i>Grand Total</i>	369	100.00%	100.00%	385.0	389.0

Source: Hospital records and management projections.

C(I).4.A DESCRIBE THE DEMOGRAPHICS OF THE POPULATION TO BE SERVED BY THIS PROPOSAL.

Please see Table Seven on the following page. The primary service area population exceeds one million persons--almost 17% of the total State population. It is increasing faster than the State population--4.2% vs. 3.7% Statewide.

This LTACH facility is focused more on the elderly 65+ patient than are most hospitals. The number of elderly residents in the primary service area will increase 13.8% between now and CY2017, while the Statewide increase for that age cohort will be 12.8%. The elderly population will reach 18.2% of the total population by CY2017--higher than the projected Statewide average of 15.8%.

Although Knox, Anderson, and Blount Counties have median incomes higher than the State average, the primary service area as a whole has a lower median income (\$39,650) than the State (\$43,939). The area has a lower percentage of the population enrolled in TennCare (17% vs. 18.3% for the State); but a slightly higher percentage of service area population has incomes below the poverty level (17.2% vs. 16.9% Statewide).

Table Seven: Demographic Characteristics of Primary Service Area

Select Specialty Hospital--North Knoxville

2013-2017

Demographic	Anderson County	Blount County	Campbell County	Claiborne County	Cocke County	Hambien County	Jefferson County	Knox County	Loudon County	Roane County	Scott County	Sevier County	TENNESSEE PSA	STATE OF TENNESSEE
Median Age-2010 US Census	42.6	41.4	41.7	41.1	42.9	39.6	40.8	37.2	46.0	44.9	38.1	40.9	35	38.0
Total Population-2013	76,182	126,809	41,163	32,457	36,330	63,763	53,006	448,093	50,356	53,918	21,986	93,637	1,097,700	6,528,014
Total Population-2017	77,582	133,389	42,315	33,110	38,143	65,181	56,054	470,092	52,629	54,310	21,931	98,873	1,143,609	6,772,022
Total Population-% Change 2013 to 2017	1.8%	5.2%	2.8%	2.0%	5.0%	2.2%	5.8%	4.9%	4.5%	0.7%	-0.3%	5.6%	4.2%	3.7%
Age 65+ Population-2013	14,136	22,341	7,459	5,742	6,548	10,973	9,597	63,654	12,268	11,099	3,405	16,084	183,306	950,177
% of Total Population	18.6%	17.6%	18.1%	17.7%	18.0%	17.2%	18.1%	14.2%	24.4%	20.6%	15.5%	17.2%	16.7%	14.6%
Age 65+ Population-2017	15,841	25,121	8,004	6,258	6,848	11,855	10,977	75,096	13,850	12,211	3,779	18,679	208,519	1,072,143
% of Total Population	20.4%	18.8%	18.9%	18.9%	18.0%	18.2%	19.6%	16.0%	26.3%	22.5%	17.2%	18.9%	18.2%	15.8%
Age 65+ Population- % Change 2013-2017	12.1%	12.4%	7.3%	9.0%	4.6%	8.0%	14.4%	18.0%	12.9%	10.0%	11.0%	16.1%	13.8%	12.8%
Median Household Income	\$44,872	\$47,298	\$31,377	\$33,178	\$28,563	\$39,604	\$38,015	\$47,277	\$50,458	\$43,129	\$29,454	\$42,569	\$39,650	\$43,989
TennCare Enrollees (07/13)	13,899	18,538	11,633	7,814	9,932	13,161	9,942	62,758	6,980	9,642	7,063	15,035	186,397	1,193,721
Percent of 2012 Population Enrolled in TennCare	18.2%	14.6%	28.3%	24.1%	27.3%	20.6%	18.8%	14.0%	13.9%	17.9%	32.1%	16.1%	17.0%	18.3%
Persons Below Poverty Level (2012)	12,799	15,598	9,509	7,335	9,773	11,286	10,018	61,389	#VALUE!	8,196	5,716	12,641	189,079	1,103,234
Persons Below Poverty Level As % of Population (US Census)	16.8%	12.3%	23.1%	22.6%	26.9%	17.7%	18.9%	13.7%	14.0%	15.2%	26.0%	13.5%	17.2%	16.9%

Sources: TDH Population Projections, May 2013; U.S. Census QuickFacts and FactFinder2;
TennCare Bureau. PSA data is unweighted average or total of county data.
NR means not reported in U.S. Census source document.

C(I).4.B. DESCRIBE THE SPECIAL NEEDS OF THE SERVICE AREA POPULATION, INCLUDING HEALTH DISPARITIES, THE ACCESSIBILITY TO CONSUMERS, PARTICULARLY THE ELDERLY, WOMEN, RACIAL AND ETHNIC MINORITIES, AND LOW-INCOME GROUPS. DOCUMENT HOW THE BUSINESS PLANS OF THE FACILITY WILL TAKE INTO CONSIDERATION THE SPECIAL NEEDS OF THE SERVICE AREA POPULATION.

The service area population does not seem to have special care needs differing from those in other areas of Tennessee. Of all patients discharged from short term acute care hospital stays, there are always a small number who do not thrive. They require prolonged additional acute care--which is provided with Medicare's approval in a "long term" acute care hospital, or "LTACH". Their stays in LTACH's average between three and four weeks, in accordance with Medicare expectations. The great majority (4 out of 5) are elderly, vulnerable, Medicare patients. This facility has served these patients for years, and seeks to continue serving them at a location that is more modern and comfortable, and more efficient to operate.

C(I).5. DESCRIBE THE EXISTING OR CERTIFIED SERVICES, INCLUDING APPROVED BUT UNIMPLEMENTED CON'S, OF SIMILAR INSTITUTIONS IN THE SERVICE AREA. INCLUDE UTILIZATION AND/OR OCCUPANCY TRENDS FOR EACH OF THE MOST RECENT THREE YEARS OF DATA AVAILABLE FOR THIS TYPE OF PROJECT. BE CERTAIN TO LIST EACH INSTITUTION AND ITS UTILIZATION AND/OR OCCUPANCY INDIVIDUALLY. INPATIENT BED PROJECTS MUST INCLUDE THE FOLLOWING DATA: ADMISSIONS OR DISCHARGES, PATIENT DAYS, AND OCCUPANCY. OTHER PROJECTS SHOULD USE THE MOST APPROPRIATE MEASURES, E.G., CASES, PROCEDURES, VISITS, ADMISSIONS, ETC.

Table Eight on the following page shows the utilization of both LTACH's in the primary service area, as reported in Joint Annual Reports for 2010-2012. Both are Select Specialty facilities. It also provides annualized utilization of both facilities in 2013, based on their utilization during the first ten months of 2013. For the past several years, the two facilities have operated at a combined occupancy of approximately 75% to 78%. For very small units with a high percentage of semi-private rooms, this is very good occupancy.

**Table Eight : Long Term Acute Care Bed Utilization in Primary Service Area
2010-2013 Annualized**

2010 Joint Annual Reports of Hospitals								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	385	9,620	25	26	75.3%
47762	Select Specialty Hospital-North Knoxville	Knox	33	346	8,905	26	24	73.9%
	SERVICE AREA TOTALS		68	731	18,525	25	51	74.6%
2011 Joint Annual Reports of Hospitals								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	376	9,709	26	27	76.0%
47762	Select Specialty Hospital-North Knoxville	Knox	33	355	9,222	26	25	76.6%
	SERVICE AREA TOTALS		68	731	18,931	26	52	76.3%
2012 Joint Annual Reports of Hospitals (Provisional)								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	418	10,153	24	28	79.5%
47762	Select Specialty Hospital-North Knoxville	Knox	33	354	9,127	26	25	75.8%
	SERVICE AREA TOTALS		68	772	19,280	25	53	77.7%
2013 Select Specialty Hospital Utilization Annualized from Jan-Oct Data								
State ID	Facility Name	County	Licensed Beds	Admissions	Days	Avg Length of Stay (Days)	Avg Daily Census (Patients)	Occupancy on Licensed Beds
47752	Select Specialty Hospital--Knoxville	Knox	35	412	9,850	24	27	77.1%
47762	Select Specialty Hospital-North Knoxville	Knox	33	381	9,447	25	26	78.4%
	SERVICE AREA TOTALS		68	793	19,297	24	53	77.7%

C(I).6. PROVIDE APPLICABLE UTILIZATION AND/OR OCCUPANCY STATISTICS FOR YOUR INSTITUTION FOR EACH OF THE PAST THREE (3) YEARS AND THE PROJECTED ANNUAL UTILIZATION FOR EACH OF THE TWO (2) YEARS FOLLOWING COMPLETION OF THE PROJECT. ADDITIONALLY, PROVIDE THE DETAILS REGARDING THE METHODOLOGY USED TO PROJECT UTILIZATION. THE METHODOLOGY MUST INCLUDE DETAILED CALCULATIONS OR DOCUMENTATION FROM REFERRAL SOURCES, AND IDENTIFICATION OF ALL ASSUMPTIONS.

Table Nine: Historical and Projected Utilization Select Specialty Hospital--North Knoxville CY2010-CY2016						
Year	Beds	Admissions	Patient Days	Average Daily Census	Patient Days of Capacity	Average Annual Occupancy
CY2010	33	346	8,905	24.4	12,045	73.9%
CY2011	33	355	9,222	25.3	12,045	76.6%
CY2012	33	354	9,127	25.0	12,045	75.8%
Annualized CY2013	33	381	9,447	25.9	12,045	78.4%
Projected CY2014	33	381	9,447	25.9	12,045	78.4%
Projected Yr 1 CY2015	33	385	9,548	26.2	12,045	79.3%
Projected Yr 2 CY2016	33	389	9,647	26.4	12,045	80.1%

Source: Hospital management.

CY2013 admissions and patient days were annualized on the basis of January-October 2013 admissions and patient days. CY2014 utilization, at the current location, was projected to remain level with CY2013 utilization. CY2015 and CY2016 will be Select's first two years at the new location. For each of those two years, admissions were increased over the prior year by 1%. That is in recognition of the all-private bed facility's ability to accept more peak period admissions than the present facility can accept in peak periods. This modest projected growth in admissions will increase average daily census by only 0.5 patients from CY2013 to CY2016. However, on such a very small bed complement (33 beds), that will increase average annual occupancy to approximately 80%.

C(II)1. PROVIDE THE COST OF THE PROJECT BY COMPLETING THE PROJECT COSTS CHART ON THE FOLLOWING PAGE. JUSTIFY THE COST OF THE PROJECT.

- **ALL PROJECTS SHOULD HAVE A PROJECT COST OF AT LEAST \$3,000 ON LINE F (MINIMUM CON FILING FEE). CON FILING FEE SHOULD BE CALCULATED ON LINE D.**

- **THE COST OF ANY LEASE (BUILDING, LAND, AND/OR EQUIPMENT) SHOULD BE BASED ON FAIR MARKET VALUE OR THE TOTAL AMOUNT OF THE LEASE PAYMENTS OVER THE INITIAL TERM OF THE LEASE, WHICHEVER IS GREATER. NOTE: THIS APPLIES TO ALL EQUIPMENT LEASES INCLUDING BY PROCEDURE OR "PER CLICK" ARRANGEMENTS. THE METHODOLOGY USED TO DETERMINE THE TOTAL LEASE COST FOR A "PER CLICK" ARRANGEMENT MUST INCLUDE, AT A MINIMUM, THE PROJECTED PROCEDURES, THE "PER CLICK" RATE AND THE TERM OF THE LEASE.**

- **THE COST FOR FIXED AND MOVEABLE EQUIPMENT INCLUDES, BUT IS NOT NECESSARILY LIMITED TO, MAINTENANCE AGREEMENTS COVERING THE EXPECTED USEFUL LIFE OF THE EQUIPMENT; FEDERAL, STATE, AND LOCAL TAXES AND OTHER GOVERNMENT ASSESSMENTS; AND INSTALLATION CHARGES, EXCLUDING CAPITAL EXPENDITURES FOR PHYSICAL PLANT RENOVATION OR IN-WALL SHIELDING, WHICH SHOULD BE INCLUDED UNDER CONSTRUCTION COSTS OR INCORPORATED IN A FACILITY LEASE.**

- **FOR PROJECTS THAT INCLUDE NEW CONSTRUCTION, MODIFICATION, AND/OR RENOVATION; DOCUMENTATION MUST BE PROVIDED FROM A CONTRACTOR AND/OR ARCHITECT THAT SUPPORT THE ESTIMATED CONSTRUCTION COSTS.**

The architect's letter supporting the construction cost estimate is provided in Attachment C, Economic Feasibility--1.

On the Project Costs Chart, following this response:

Line A.1, A&E fees, were estimated by Select Medical Corporation's development staff at 7% of construction costs (in line A5).

Line A.2, legal, administrative, and consultant fees, are an approximation based on Select Medical Corporation's experience with similar projects.

Line A.5, construction cost, was estimated by Select Medical Corporation's development staff, and reviewed and validated by the project architect.

Line A.6, contingency, was estimated by Select Medical Corporation's development staff at 8% of construction costs in line A.5.

Line A.7 includes both fixed and moveable equipment costs, estimated by Select Medical Corporation's development staff. There is no unit of clinical equipment exceeding \$50,000 in capital cost.

Line B.1 is the fair market value of the facility being leased, calculated in the two alternative ways required by HSDA rules. The "leasehold value" method was the larger of these two alternative calculations and was used in the Project Cost Chart.

Lease Outlay Method:

25,701 RSF (rentable SF) X \$21.97 PRSF in lease year one, increasing at 3% per year in lease years two through ten = a total lease outlay of \$6,473,090.57.

Leasehold Value Method:

25,701 RSF leased / 77,449 GSF total building X \$21,800,000 recent building sale price, = \$7,234,203.15 pro rata value of the space to be leased.

Line C.1, interim financing, has no entry because no construction financing will be required. The applicant will use its cash reserves to pay development costs as they come due.

PROJECT COSTS CHART— SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE

REC-13 PH-44

A. Construction and equipment acquired by purchase:

1. Architectural and Engineering Fees	7% of A5	\$	351,750
2. Legal, Administrative, Consultant Fees (Excl CON Filing)			50,000
3. Acquisition of Site			0
4. Preparation of Site			0
5. Construction Cost	23,624 USF X \$212.71 PSF		5,025,000
6. Contingency Fund	8% of A5		402,000
7. Fixed Equipment (Not included in Construction Contract)			666,562
8. Moveable Equipment (List all equipment over \$50,000)			150,000
9. Other (Specify)			0

B. Acquisition by gift, donation, or lease:

1. Facility (inclusive of building and land)	FMV of leasehold		7,234,203
2. Building only			0
3. Land only			0
4. Equipment (Specify)			0
5. Other (Specify)			0

C. Financing Costs and Fees:

1. Interim Financing			0
2. Underwriting Costs			0
3. Reserve for One Year's Debt Service			0
4. Other (Specify)			0

D. Estimated Project Cost (A+B+C)

13,879,515

E. CON Filing Fee

31,229

F. Total Estimated Project Cost (D+E)

TOTAL \$ 13,910,744

Actual Capital Cost 6,676,541
Section B FMV 7,234,203

C(II).2. IDENTIFY THE FUNDING SOURCES FOR THIS PROJECT.

a. PLEASE CHECK THE APPLICABLE ITEM(S) BELOW AND BRIEFLY SUMMARIZE HOW THE PROJECT WILL BE FINANCED. (DOCUMENTATION FOR THE TYPE OF FUNDING MUST BE INSERTED AT THE END OF THE APPLICATION, IN THE CORRECT ALPHANUMERIC ORDER AND IDENTIFIED AS ATTACHMENT C, ECONOMIC FEASIBILITY--2).

☐ **A. Commercial Loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**

☐ **B. Tax-Exempt Bonds--copy of preliminary resolution or a letter from the issuing authority, stating favorable contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**

☐ **C. General Obligation Bonds--Copy of resolution from issuing authority or minutes from the appropriate meeting;**

☐ **D. Grants--Notification of Intent form for grant application or notice of grant award;**

☒ **E. Cash Reserves--Appropriate documentation from Chief Financial Officer; or**

☐ **F. Other--Identify and document funding from all sources.**

The applicant has sufficient cash in reserve to pay the \$6,676,541 capital costs required to implement the project. The hospital's balance sheet in Attachment C, Economic Feasibility--2 has a line item of \$9,878,274 under "Affiliates". This is a reserve account held for this specific hospital by the parent company. It is available to the applicant for this authorized project.

Documentation of the hospital's commitment to fund and implement the project, using this reserve account, is provided in Attachment C, Economic Feasibility--2.

C(II).3. DISCUSS AND DOCUMENT THE REASONABLENESS OF THE PROPOSED PROJECT COSTS. IF APPLICABLE, COMPARE THE COST PER SQUARE FOOT OF CONSTRUCTION TO SIMILAR PROJECTS RECENTLY APPROVED BY THE HSDA.

The justification of costs was provided in an earlier section, which is repeated here:

Hospital construction projects approved by the HSDA in 2010-12 projected the following construction costs per SF:

Table Three: Hospital Construction Cost PSF Years: 2010 – 2012			
	Renovated Construction	New Construction	Total Construction
1 st Quartile	\$99.12/sq ft	\$234.64/sq ft	\$167.99/sq ft
Median	\$177.60/sq ft	\$259.66/sq ft	\$235.00/sq ft
3 rd Quartile	\$249.00/sq ft	\$307.80/sq ft	\$274.63/sq ft

Source: HSDA Registry, for approved CON applications 2010-2012,

Select Specialty's estimated renovation cost for this project is approximately \$212.71 PSF. That is consistent with the Statewide costs shown above, which range from \$99.12 to \$249 PSF for renovation (which includes building out of existing shelled space).

C(II).4. COMPLETE HISTORICAL AND PROJECTED DATA CHARTS ON THE FOLLOWING TWO PAGES--DO NOT MODIFY THE CHARTS PROVIDED OR SUBMIT CHART SUBSTITUTIONS. HISTORICAL DATA CHART REPRESENTS REVENUE AND EXPENSE INFORMATION FOR THE LAST THREE (3) YEARS FOR WHICH COMPLETE DATA IS AVAILABLE FOR THE INSTITUTION. PROJECTED DATA CHART REQUESTS INFORMATION FOR THE TWO YEARS FOLLOWING COMPLETION OF THIS PROPOSAL. PROJECTED DATA CHART SHOULD INCLUDE REVENUE AND EXPENSE PROJECTIONS FOR THE PROPOSAL ONLY (I.E., IF THE APPLICATION IS FOR ADDITIONAL BEDS, INCLUDE ANTICIPATED REVENUE FROM THE PROPOSED BEDS ONLY, NOT FROM ALL BEDS IN THE FACILITY).

See the following pages for these charts, with notes where applicable.

HISTORICAL DATA CHART -- SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE

Give information for the last three (3) years for which complete data are available for the facility or agency.

The fiscal year begins in JANUARY.

		Year 2011	Year 2012	Ann'd Jan-Oct Year 2013
		<u>355</u>	<u>354</u>	<u>381</u>
Admissions				
Patient Days		<u>9,222</u>	<u>9,127</u>	<u>9,447</u>
A.	Utilization Data			
B.	Revenue from Services to Patients			
1.	Inpatient Services	\$ <u>30,791,694</u>	<u>33,374,708</u>	<u>35,219,846</u>
2.	Outpatient Services	<u>0</u>		
3.	Emergency Services	<u>0</u>		
4.	Other Operating Revenue	<u>10,919</u>	<u>14,019</u>	<u>17,320</u>
	(Specify) <u>Medical Records Copying & Interest</u>			
	Gross Operating Revenue	\$ <u>30,802,613</u>	\$ <u>33,388,727</u>	\$ <u>35,237,166</u>
C.	Deductions for Operating Revenue			
1.	Contractual Adjustments	\$ <u>18,234,736</u>	<u>20,218,049</u>	<u>22,101,441</u>
2.	Provision for Charity Care	<u>0</u>		
3.	Provisions for Bad Debt	<u>83,223</u>	<u>284,399</u>	<u>106,528</u>
	Total Deductions	\$ <u>18,317,959</u>	\$ <u>20,502,448</u>	\$ <u>22,207,969</u>
	NET OPERATING REVENUE	\$ <u>12,484,654</u>	\$ <u>12,886,279</u>	\$ <u>13,029,197</u>
D.	Operating Expenses			
1.	Salaries and Wages	\$ <u>5,233,637</u>	<u>5,357,599</u>	<u>5,704,539</u>
2.	Physicians Salaries and Wages	<u>0</u>	<u>0</u>	<u>0</u>
3.	Supplies	<u>1,394,425</u>	<u>1,320,639</u>	<u>1,271,013</u>
4.	Taxes	<u>770,904</u>	<u>811,991</u>	<u>754,301</u>
5.	Depreciation	<u>111,422</u>	<u>89,080</u>	<u>111,472</u>
6.	Rent	<u>340,532</u>	<u>340,532</u>	<u>261,332</u>
7.	Interest, other than Capital			
8.	Management Fees			
	a. Fees to Affiliates	<u>747,585</u>	<u>636,721</u>	<u>650,000</u>
	b. Fees to Non-Affiliates			
9.	Other Expenses (Specify) <u>See notes page</u>	<u>2,812,727</u>	<u>2,890,955</u>	<u>3,172,829</u>
	Total Operating Expenses	\$ <u>11,411,232</u>	<u>11,447,518</u>	<u>11,925,487</u>
E.	Other Revenue (Expenses) -- Net (Specify)	\$	\$	\$
	NET OPERATING INCOME (LOSS)	\$ <u>1,073,422</u>	\$ <u>1,438,761</u>	\$ <u>1,103,710</u>
F.	Capital Expenditures			
1.	Retirement of Principal	\$	\$	\$
2.	Interest			
	Total Capital Expenditures	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
	NET OPERATING INCOME (LOSS)			
	LESS CAPITAL EXPENDITURES	\$ <u>1,073,422</u>	\$ <u>1,438,761</u>	\$ <u>1,103,710</u>

PROJECTED DATA CHART— SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE

Give information for the two (2) years following the completion of this proposal.

The fiscal year begins in JANUARY.

		CY 2015	CY 2016
	Admissions	<u>385</u>	<u>389</u>
	Patient Days	<u>9,548</u>	<u>9,647</u>
A.	Utilization Data		
B.	Revenue from Services to Patients		
1.	Inpatient Services	\$ 35,594,129	\$ 37,042,088
2.	Outpatient Services		
3.	Emergency Services		
4.	Other Operating Revenue (Spec Medical records & Interest)	3,300	3,300
	Gross Operating Revenue	\$ 35,597,429	\$ 37,045,388
C.	Deductions for Operating Revenue		
1.	Contractual Adjustments	\$ 22,207,833	\$ 23,343,348
2.	Provision for Charity Care		
3.	Provisions for Bad Debt	107,090	109,590
	Total Deductions	\$ 22,314,923	\$ 23,452,938
	NET OPERATING REVENUE	\$ 13,282,506	\$ 13,592,450
D.	Operating Expenses		
1.	Salaries and Wages	\$ 5,776,540	\$ 5,875,023
2.	Physicians Salaries and Wages		
3.	Supplies	1,286,784	1,300,126
4.	Taxes	176,190	222,532
5.	Depreciation	1,288,225	1,302,510
6.	Rent	564,651	581,591
7.	Interest, other than Capital		
8.	Management Fees		
a.	Fees to Affiliates	796,950	815,547
b.	Fees to Non-Affiliates		
9.	Other Expenses (Specify) <u>See notes page</u>	3,157,524	3,190,263
	Dues, Utilities, Insurance, and Prop Taxes.		
	Total Operating Expenses	\$ 13,046,864	\$ 13,287,592
E.	Other Revenue (Expenses) -- Net (Specify)	\$	\$
	NET OPERATING INCOME (LOSS)	\$ 235,641	\$ 304,858
F.	Capital Expenditures		
1.	Retirement of Principal	\$	\$
2.	Interest		
	Total Capital Expenditures	\$ 0	\$ 0
	NET OPERATING INCOME (LOSS)		
	LESS CAPITAL EXPENDITURES	\$ 235,641	\$ 304,858

SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE

LINE D.9, Other Expenses	HISTORICAL DATA CHART			PROJECTED DATA CHART	
	2011	2012	2013	2015	2016
Insurance	94,752	94,040	98,710	95,480	96,470
Utilities	12,399	15,751	18,088	18,141	18,329
Legal & Accounting	23,681	25,420	30,126	28,644	28,941
Repairs & Maintenance	113,548	104,459	97,455	98,344	99,364
Travel/Meals & Entertainment	101,050	132,329	108,746	109,802	110,941
Contracted Physicians	195,967	163,635	164,072	162,316	163,999
Ancillary Patient Services	1,898,580	1,895,388	2,153,124	2,167,396	2,189,869
Equipment Rentals	185,368	240,998	267,433	238,700	241,175
Corporate Services	187,383	218,935	235,074	238,700	241,175
Total Other Expenses	2,812,727	2,890,955	3,172,829	3,157,524	3,190,263

C(II).5. PLEASE IDENTIFY THE PROJECT'S AVERAGE GROSS CHARGE, AVERAGE DEDUCTION FROM OPERATING REVENUE, AND AVERAGE NET CHARGE.

Table Ten: Average Charges, Deductions, Net Charges, Net Operating Income		
	CY2015	CY2016
Patient Days	9,548	9,647
Admissions or Discharges	385	389
Average Gross Charge Per Day	\$3,728	\$3,840
Average Gross Charge Per Admission	\$92,461	\$95,232
Average Deduction from Operating Revenue per Day	\$2,337	\$2,431
Average Deduction from Operating Revenue per Admission	\$57,961	\$60,290
Average Net Charge (Net Operating Revenue) Per Day	\$1,391	\$1,409
Average Net Charge (Net Operating Revenue) Per Admission	\$34,500	\$34,942
Average Net Operating Income after Expenses, Per Day	\$25	\$32
Average Net Operating Income after Expenses, Per Admission	\$612	\$784

Source: Projected Data Chart

C(II).6.A. PLEASE PROVIDE THE CURRENT AND PROPOSED CHARGE SCHEDULES FOR THE PROPOSAL. DISCUSS ANY ADJUSTMENT TO CURRENT CHARGES THAT WILL RESULT FROM THE IMPLEMENTATION OF THE PROPOSAL. ADDITIONALLY, DESCRIBE THE ANTICIPATED REVENUE FROM THE PROPOSED PROJECT AND THE IMPACT ON EXISTING PATIENT CHARGES.

Please see Table Eleven on the following page. It shows the gross charge and DRG payment for the most frequent admissions of this hospital.

The relocation and renovation will not adversely impact the facility's charges. The hospital will fund the project with cash reserves, so new debt service will not be required for this project.

**Table Eleven: Charge Data for Most Frequent Types of Admission
Select Specialty Hospital--North Knoxville**

Service: Long Term Acute Care

DRG	Descriptor	Current Medicare Allowable	Average Gross Charge			Utilization (Admissions)		
			Current	Year 1	Year 2	Current	Year 1	Year 2
189	PULMONARY EDEMA & RESPIRATORY FAILURE	31,879.75	71,983	74,143	76,367	51	53	54
207	RESPIRATORY SYSTEM DIAGNOSIS W/VENTIL	66,890.33	159,522	164,308	169,237	50	51	52
949	AFTERCARE W CC/MCC	24,249.41	72,334	74,504	76,739	29	29	29
871	SEPTICEMIA W/O MV 96+ HOURS WMCC	30,045.73	65,727	67,699	69,730	18	18	18
682	RENAL FAILURE W MCC	31,383.61	78,706	81,068	83,500	15	15	15
208	RESPIRATORY SYSTEM DIAGNOSIS W/VENTILATOR SUPPORT <96 HOURS	37,015.68	88,065	88,647	91,307	15	15	15
862	POSTOPERATIVE & POST-TRAUMATIC INFECTIONS W MCC	34,351.85	92,796	95,580	98,448	12	12	12
539	OSTEOMYELITIS W MCC	35,660.70	104,895	108,042	111,283	11	11	11
559	AFTERCARE, MUSCULOSKELETAL SYSTEM & CONNECTIVE TISSUE W MCC	31,458.88	63,390	65,292	67,250	9	9	9
314	OTHER CIRCULATORY SYSTEM DIAGNOSES WMCC	33,002.06	83,144	85,639	88,208	9	9	9
981	EXTENSIVE O.R. PROCEDURE UNRELATED TO PRINCIPAL DIAGNOSIS W MCC	73,391.52	194,361	200,192	206,197	8	8	8
640	NUTRITIONAL & MISC METABOLIC DISORDERS W MCC	30,237.35	58,749	60,512	62,327	7	7	7
4	TRACH W MV 96+ HRS OR PDX EXCFACE, MOUTH & NECK W/O MAJ O.R.	101,941.97	160,670	165,490	170,455	7	7	7
463	WND DEBRID & SKN GRFT EXC HAND, FOR MUSCULO-CONN TISS DIS W MCC	49,593.76	117,113	120,626	124,245	6	6	7
863	POSTOPERATIVE & POST-TRAUMATIC INFECTIONS W/OMCC	24,129.65	65,345	67,305	69,324	6	6	6
	All Others					128	129	130
	Total Utilization					381	385	389

C(II).6.B. COMPARE THE PROPOSED CHARGES TO THOSE OF SIMILAR FACILITIES IN THE SERVICE AREA/ADJOINING SERVICE AREAS, OR TO PROPOSED CHARGES OF PROJECTS RECENTLY APPROVED BY THE HSDA. IF APPLICABLE, COMPARE THE PROJECTED CHARGES OF THE PROJECT TO THE CURRENT MEDICARE ALLOWABLE FEE SCHEDULE BY COMMON PROCEDURE TERMINOLOGY (CPT) CODE(S).

The requested Medicare reimbursement and current and future gross charge comparisons by DRG are provided in Table Eleven on the preceding page.

Table Twelve on the following page compares 2012 Joint Annual Report data for average gross charges per day and per stay, at all seven LTACH's in Tennessee. Five of them are Select Specialty facilities.

Select Specialty Hospital--North Knoxville has the second lowest charge per day, and the second lowest charge per stay, of all seven hospitals Statewide. The five Select facilities as a group had 22% lower charges per day than the non-Select facilities (\$3,959 compared to \$5,073).

In CY2015, the applicant projects a gross charge per day and per stay of \$3,728 and \$92,461, respectively. These are lower than most of the 2012 charges of other LTACH's in Tennessee, as shown in Table Twelve.

Table Twelve: Comparative Charges Per Stay and Per Day Tennessee Long Term Acute Care Hospitals, 2012 Joint Annual Reports					
Facility	Gross Charges	Admissions	Patient or Discharge Days	Charge/Stay	Charge/Day
Select Specialty Hospital--Tri-Cities	\$52,618,282	404	10,919	\$130,243	\$4,819
Select Specialty Hospital--North Knoxville	\$33,374,708	354	9127	\$94,279	\$3,657
Select Specialty Hospital--Knoxville	\$32,592,057	418	10,153	\$77,971	\$3,210
Kindred Hospital--Chattanooga	\$51,418,405	421	10,498	\$122,134	\$4,898
Kindred Hospital--Nashville	\$49,559,157	282	9,406	\$175,742	\$5,269
Select Specialty Hospital--Nashville	\$61,173,865	426	16,664	\$143,601	\$3,671
Select Specialty Hospital--Memphis	\$58,876,841	474	13,412	\$124,213	\$4,390
Seven LTAC Hospitals	\$339,613,315	2,779	80,179	\$122,207	\$4,236
Five Select Specialty LTAC Hospitals	\$238,635,753	2,076	60,275	\$114,950	\$3,959
Other LTAC Hospitals	\$100,977,562	703	19,904	\$143,638	\$5,073

Source: TDH Joint Annual Reports, 2012

C(II).7. DISCUSS HOW PROJECTED UTILIZATION RATES WILL BE SUFFICIENT TO MAINTAIN COST-EFFECTIVENESS.

At its present location, the applicant hospital is already cost-effective and operates with a positive financial margin. Relocation to a better facility will not reduce its performance. It will remain cost-effective, and utilized slightly above its current levels.

C(II).8. DISCUSS HOW FINANCIAL VIABILITY WILL BE ENSURED WITHIN TWO YEARS; AND DEMONSTRATE THE AVAILABILITY OF SUFFICIENT CASH FLOW UNTIL FINANCIAL VIABILITY IS MAINTAINED.

The hospital operates with a positive financial margin. Cash flow is not an issue; this is an existing facility with established reimbursement and positive cash flow at all times.

C(II).9. DISCUSS THE PROJECT'S PARTICIPATION IN STATE AND FEDERAL REVENUE PROGRAMS, INCLUDING A DESCRIPTION OF THE EXTENT TO WHICH MEDICARE, TENNCARE/MEDICAID, AND MEDICALLY INDIGENT PATIENTS WILL BE SERVED BY THE PROJECT. IN ADDITION, REPORT THE ESTIMATED DOLLAR AMOUNT OF REVENUE AND PERCENTAGE OF TOTAL PROJECT REVENUE ANTICIPATED FROM EACH OF TENNCARE, MEDICARE, OR OTHER STATE AND FEDERAL SOURCES FOR THE PROPOSAL'S FIRST YEAR OF OPERATION.

In the twelve months November 2012-October 2013, this hospital had a Medicare payor mix of approximately 79.5% of gross revenues. Medicaid was 5.8% of gross revenues. These percentages are assumed to continue in Year One (CY2015) of this project. See table Thirteen below.

Table Thirteen: Medicare and TennCare/Medicaid Revenues, Year One			
	All Payors	Medicare	Medicaid
Gross Revenue	\$35,597,429	\$28,299,956	\$2,064,651
% of Gross Revenue	100%	79.5%	5.8%

C(II).10. PROVIDE COPIES OF THE BALANCE SHEET AND INCOME STATEMENT FROM THE MOST RECENT REPORTING PERIOD OF THE INSTITUTION, AND THE MOST RECENT AUDITED FINANCIAL STATEMENTS WITH ACCOMPANYING NOTES, IF APPLICABLE. FOR NEW PROJECTS, PROVIDE FINANCIAL INFORMATION FOR THE CORPORATION, PARTNERSHIP, OR PRINCIPAL PARTIES INVOLVED WITH THE PROJECT. COPIES MUST BE INSERTED AT THE END OF THE APPLICATION, IN THE CORRECT ALPHANUMERIC ORDER AND LABELED AS ATTACHMENT C, ECONOMIC FEASIBILITY--10.

These are provided as Attachment C, Economic Feasibility--10.

C(II)11. DESCRIBE ALL ALTERNATIVES TO THIS PROJECT WHICH WERE CONSIDERED AND DISCUSS THE ADVANTAGES AND DISADVANTAGES OF EACH ALTERNATIVE, INCLUDING BUT NOT LIMITED TO:

A. A DISCUSSION REGARDING THE AVAILABILITY OF LESS COSTLY, MORE EFFECTIVE, AND/OR MORE EFFICIENT ALTERNATIVE METHODS OF PROVIDING THE BENEFITS INTENDED BY THE PROPOSAL. IF DEVELOPMENT OF SUCH ALTERNATIVES IS NOT PRACTICABLE, THE APPLICANT SHOULD JUSTIFY WHY NOT, INCLUDING REASONS AS TO WHY THEY WERE REJECTED.

B. THE APPLICANT SHOULD DOCUMENT THAT CONSIDERATION HAS BEEN GIVEN TO ALTERNATIVES TO NEW CONSTRUCTION, E.G., MODERNIZATION OR SHARING ARRANGEMENTS. IT SHOULD BE DOCUMENTED THAT SUPERIOR ALTERNATIVES HAVE BEEN IMPLEMENTED TO THE MAXIMUM EXTENT PRACTICABLE.

The alternative of remaining in the current hospital was rejected for several reasons. First, the current location is in an aged hospital structure whose patient rooms are less private, less spacious, less attractive, less weatherproof, and have less manageable heat and cooling systems, than rooms that the applicant can construct in space being offered at Physicians Plaza MOB at North Knoxville Medical Center. Second, the applicant's existence would be at risk from electing to stay at a facility where full (or any) ancillary support services may not be available 24/7 in future years. At that future time, comparable alternative leased bed space might not be available to Select. Third, the applicant has an immediate opportunity to improve its physical space, while remaining lodged within the same health system with which it currently works most closely; and maintaining such stability might not be possible at a later date.

The alternative of requesting additional beds was not pursued because the applicant, like the applicant's affiliate LTACH facility in Knoxville, is managing to meet most requests for admission with its current bed complement. Some additional admissions will be possible when the bed complement changes from 15% private rooms to 100% private rooms; and that should relieve peak period bed needs for awhile.

The alternative of leasing newer space in the East Oak Hill facility (at a higher lease rate) has been offered to Select; but uncertainty about future ancillary service availability and the need to pay higher lease costs are not acceptable.

C(III).1. LIST ALL EXISTING HEALTH CARE PROVIDERS (I.E., HOSPITALS, NURSING HOMES, HOME CARE ORGANIZATIONS, ETC.) MANAGED CARE ORGANIZATIONS, ALLIANCES, AND/OR NETWORKS WITH WHICH THE APPLICANT CURRENTLY HAS OR PLANS TO HAVE CONTRACTUAL AND/OR WORKING RELATIONSHIPS, E.G., TRANSFER AGREEMENTS, CONTRACTUAL AGREEMENTS FOR HEALTH SERVICES.

Select Specialty Hospital--North Knoxville is located within the tertiary Tennova Healthcare facility in central Knoxville. Tennova is its "host" hospital. Select contracts with the host hospital and the host's vendors to deliver the ancillary and support services needed by its patients. This includes food services, diagnostic imaging and testing, surgery if required, and health professional consults and support on a 24-hour basis. The latter includes all types of physician services that may be needed.

As an LTACH, Select Specialty Hospital--north Knoxville receives transfer requests from many primary service area hospitals on a regular basis.

C(III).2. DESCRIBE THE POSITIVE AND/OR NEGATIVE EFFECTS OF THE PROPOSAL ON THE HEALTH CARE SYSTEM. PLEASE BE SURE TO DISCUSS ANY INSTANCES OF DUPLICATION OR COMPETITION ARISING FROM YOUR PROPOSAL, INCLUDING A DESCRIPTION OF THE EFFECT THE PROPOSAL WILL HAVE ON THE UTILIZATION RATES OF EXISTING PROVIDERS IN THE SERVICE AREA OF THE PROJECT.

The project will not have any negative effects on other providers. This is only a change in location within Knox County. The project will not change Select's licensed bed complement, scope of services, primary service area, ownership, or management. It will not even change its affiliation with its host hospital system (Tennova).

The positive effects of the project have been stated in several prior sections of the application. They include additional private accommodations without a license increase, larger and more modern rooms without water problems, greater functionality for patients requiring special equipment in the room, and increased patient and referral hospital satisfaction.

C(III).3. PROVIDE THE CURRENT AND/OR ANTICIPATED STAFFING PATTERN FOR ALL EMPLOYEES PROVIDING PATIENT CARE FOR THE PROJECT. THIS CAN BE REPORTED USING FTE'S FOR THESE POSITIONS. IN ADDITION, PLEASE COMPARE THE CLINICAL STAFF SALARIES IN THE PROPOSAL TO PREVAILING WAGE PATTERNS IN THE SERVICE AREA AS PUBLISHED BY THE TENNESSEE DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT AND/OR OTHER DOCUMENTED SOURCES.

Please see the following page for Table Fifteen, a chart of projected FTE's and salary ranges.

The Department of Labor and Workforce Development website indicates the following Knoxville area annual salary information for clinical employees of the categories staffed in this project.

Table Fourteen: TDOL Surveyed Average Salaries for the Region				
Clinical Position	Entry Level	Mean	Median	Experienced
RN	\$43,280	\$60,480	\$54,110	\$69,080
LPN	not surveyed			
Nurse Aide	\$19,200	\$22,610	\$22,250	\$24,320
Physical Therapist	\$58,710	\$71,000	\$70,501	\$77,140
Occupational Therapist	\$61,470	\$80,790	\$74,100	\$90,310
Speech Therapist	\$39,290	\$57,210	\$55,110	\$66,170
Respiratory Therapist	\$38,680	\$44,990	\$44,560	\$48,150
Physical Therapy Assist.	\$33,900	\$45,070	\$43,280	\$50,660
COTA (Occ.Ther. Assist.)	\$32,390	\$43,550	\$39,670	\$49,130
Pharmacist	\$76,980	\$114,010	\$113,940	\$132,530
Pharmacy Tech	\$16,910	\$21,730	\$21,220	\$24,140
Dietician	\$40,370	\$51,550	\$51,360	\$57,150
Medical Records Admin.	not surveyed			
Medical Records Tech.	not surveyed			

Source: DOLWD Website, May 2012 occupational wage and salary survey

Table Fifteen: Select Specialty Hospital--North Knoxville Long Term Acute Care Hospital Current and Projected Staffing				
Position Type (RN, etc.)	Current FTE's	CY2015 FTE's	CY2016 FTE's	Salary Range (Annual)
Administrator/CEO	1	1	1	1 \$100,000-\$150,000
Human Resource Assistant	1	1	1	1 \$34,000-\$38,000
Marketing & Planning Officers/Assist.	2.5	2.5	2.5	2.5 \$66,000-\$76,000
Financial & Accounting Officers	1.4	1.4	1.4	1.4 \$27,000-\$50,000
RN-Administrative CNO	1	1	1	1 \$80,000-\$97,000
RNs-Patient Care/Clinical	34	34	34	34 \$39,000-\$85,000
LPNs-Patient Care	2	2	2	2 \$34,000-\$36,000
Ancillary Nursing Personnel	16	16	16	16 \$20,000-\$27,000
Medical Records Admin & Technicians	1.6	1.6	1.6	1.6 \$23,000-\$37,000
Pharmacist	1	1	1	1 \$115,000-\$120,000
Pharmacy Technicians	1.5	1.5	1.5	1.5 \$32,000-\$38,000
Therapist (SP, OT, PT, RT)	10.2	10.2	10.2	10.2 \$44,000-\$95,000
Therapy Assistants (COTA, PTA)	2	2	2	2 \$55,000-\$62,000
Other Cert. Professional: Quality	2.4	2.4	2.4	2.4 \$74,000-\$76,000
Other Cert. Professional: Case Managers	2	2	2	2 \$61,000-\$76,000
Non-Cert. Professional: Telemetry/US/Admiss	6.5	6.5	6.5	6.5 \$23,000-\$33,000
Dietitian Contracted with Host Hospital	0.5	0.5	0.5	0.5 \$25,000-\$30,000
Total FTE's	86.6	86.6	86.6	

Source: Select Specialty Hospital management

C(III).4. DISCUSS THE AVAILABILITY OF AND ACCESSIBILITY TO HUMAN RESOURCES REQUIRED BY THE PROPOSAL, INCLUDING ADEQUATE PROFESSIONAL STAFF, AS PER THE DEPARTMENT OF HEALTH, THE DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES, AND/OR THE DIVISION OF MENTAL RETARDATION SERVICES LICENSING REQUIREMENTS.

This project is the relocation of an existing, fully staffed hospital, with no projected increase or decrease of staff. So availability is not an issue. As an experienced provider affiliated with a national healthcare company, the applicant is very familiar with State standards for human resources.

C(III).5. VERIFY THAT THE APPLICANT HAS REVIEWED AND UNDERSTANDS THE LICENSING CERTIFICATION AS REQUIRED BY THE STATE OF TENNESSEE FOR MEDICAL/CLINICAL STAFF. THESE INCLUDE, WITHOUT LIMITATION, REGULATIONS CONCERNING PHYSICIAN SUPERVISION, CREDENTIALING, ADMISSIONS PRIVILEGES, QUALITY ASSURANCE POLICIES AND PROGRAMS, UTILIZATION REVIEW PPOLICIES AND PROGRAMS, RECORD KEEPING, AND STAFF EDUCATION.

The applicant so verifies.

C(III).6. DISCUSS YOUR HEALTH CARE INSTITUTION'S PARTICIPATION IN THE TRAINING OF STUDENTS IN THE AREAS OF MEDICINE, NURSING, SOCIAL WORK, ETC. (I.E., INTERNSHIPS, RESIDENCIES, ETC.).

Select Specialty Hospitals in Knoxville provide clinical rotations for nursing and therapy training programs, under contracts with Pellissippi State Community College, South College, Belmont University, Carson Newman College, Lynchburg College, and Roane State Community College.

C(III).7(a). PLEASE VERIFY, AS APPLICABLE, THAT THE APPLICANT HAS REVIEWED AND UNDERSTANDS THE LICENSURE REQUIREMENTS OF THE DEPARTMENT OF HEALTH, THE DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES, THE DIVISION OF MENTAL RETARDATION SERVICES, AND/OR ANY APPLICABLE MEDICARE REQUIREMENTS.

The applicant so verifies.

C(III).7(b). PROVIDE THE NAME OF THE ENTITY FROM WHICH THE APPLICANT HAS RECEIVED OR WILL RECEIVE LICENSURE, CERTIFICATION, AND/OR ACCREDITATION

LICENSURE: Board for Licensure of Healthcare Facilities
Tennessee Department of Health

CERTIFICATION: Medicare Certification from CMS
TennCare Certification from TDH

ACCREDITATION: Joint Commission

C(III).7(c). IF AN EXISTING INSTITUTION, PLEASE DESCRIBE THE CURRENT STANDING WITH ANY LICENSING, CERTIFYING, OR ACCREDITING AGENCY OR AGENCY.

The applicant is currently licensed in good standing by the Board for Licensing Health Care Facilities, certified for participation in Medicare and Medicaid/TennCare, and fully accredited by the Joint Commission on Accreditation of Healthcare Organizations.

C(III).7(d). FOR EXISTING LICENSED PROVIDERS, DOCUMENT THAT ALL DEFICIENCIES (IF ANY) CITED IN THE LAST LICENSURE CERTIFICATION AND INSPECTION HAVE BEEN ADDRESSED THROUGH AN APPROVED PLAN OF CORRECTION. PLEASE INCLUDE A COPY OF THE MOST RECENT LICENSURE/CERTIFICATION INSPECTION WITH AN APPROVED PLAN OF CORRECTION.

They have been addressed. A copy of the most recent licensure inspection and plan of correction, and/or the most recent accreditation inspection, are provided in Attachment C, Orderly Development--7(C).

C(III)8. DOCUMENT AND EXPLAIN ANY FINAL ORDERS OR JUDGMENTS ENTERED IN ANY STATE OR COUNTRY BY A LICENSING AGENCY OR COURT AGAINST PROFESSIONAL LICENSES HELD BY THE APPLICANT OR ANY ENTITIES OR PERSONS WITH MORE THAN A 5% OWNERSHIP INTEREST IN THE APPLICANT. SUCH INFORMATION IS TO BE PROVIDED FOR LICENSES REGARDLESS OF WHETHER SUCH LICENSE IS CURRENTLY HELD.

None.

C(III)9. IDENTIFY AND EXPLAIN ANY FINAL CIVIL OR CRIMINAL JUDGMENTS FOR FRAUD OR THEFT AGAINST ANY PERSON OR ENTITY WITH MORE THAN A 5% OWNERSHIP INTEREST IN THE PROJECT.

None.

C(III)10. IF THE PROPOSAL IS APPROVED, PLEASE DISCUSS WHETHER THE APPLICANT WILL PROVIDE THE THSDA AND/OR THE REVIEWING AGENCY INFORMATION CONCERNING THE NUMBER OF PATIENTS TREATED, THE NUMBER AND TYPE OF PROCEDURES PERFORMED, AND OTHER DATA AS REQUIRED.

Yes. The applicant will provide the requested data consistent with Federal HIPAA requirements.

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100. 101. 102. 103. 104. 105. 106. 107. 108. 109. 110. 111. 112. 113. 114. 115. 116. 117. 118. 119. 120. 121. 122. 123. 124. 125. 126. 127. 128. 129. 130. 131. 132. 133. 134. 135. 136. 137. 138. 139. 140. 141. 142. 143. 144. 145. 146. 147. 148. 149. 150. 151. 152. 153. 154. 155. 156. 157. 158. 159. 160. 161. 162. 163. 164. 165. 166. 167. 168. 169. 170. 171. 172. 173. 174. 175. 176. 177. 178. 179. 180. 181. 182. 183. 184. 185. 186. 187. 188. 189. 190. 191. 192. 193. 194. 195. 196. 197. 198. 199. 200. 201. 202. 203. 204. 205. 206. 207. 208. 209. 210. 211. 212. 213. 214. 215. 216. 217. 218. 219. 220. 221. 222. 223. 224. 225. 226. 227. 228. 229. 230. 231. 232. 233. 234. 235. 236. 237. 238. 239. 240. 241. 242. 243. 244. 245. 246. 247. 248. 249. 250. 251. 252. 253. 254. 255. 256. 257. 258. 259. 260. 261. 262. 263. 264. 265. 266. 267. 268. 269. 270. 271. 272. 273. 274. 275. 276. 277. 278. 279. 280. 281. 282. 283. 284. 285. 286. 287. 288. 289. 290. 291. 292. 293. 294. 295. 296. 297. 298. 299. 300. 301. 302. 303. 304. 305. 306. 307. 308. 309. 310. 311. 312. 313. 314. 315. 316. 317. 318. 319. 320. 321. 322. 323. 324. 325. 326. 327. 328. 329. 330. 331. 332. 333. 334. 335. 336. 337. 338. 339. 340. 341. 342. 343. 344. 345. 346. 347. 348. 349. 350. 351. 352. 353. 354. 355. 356. 357. 358. 359. 360. 361. 362. 363. 364. 365. 366. 367. 368. 369. 370. 371. 372. 373. 374. 375. 376. 377. 378. 379. 380. 381. 382. 383. 384. 385. 386. 387. 388. 389. 390. 391. 392. 393. 394. 395. 396. 397. 398. 399. 400. 401. 402. 403. 404. 405. 406. 407. 408. 409. 410. 411. 412. 413. 414. 415. 416. 417. 418. 419. 420. 421. 422. 423. 424. 425. 426. 427. 428. 429. 430. 431. 432. 433. 434. 435. 436. 437. 438. 439. 440. 441. 442. 443. 444. 445. 446. 447. 448. 449. 450. 451. 452. 453. 454. 455. 456. 457. 458. 459. 460. 461. 462. 463. 464. 465. 466. 467. 468. 469. 470. 471. 472. 473. 474. 475. 476. 477. 478. 479. 480. 481. 482. 483. 484. 485. 486. 487. 488. 489. 490. 491. 492. 493. 494. 495. 496. 497. 498. 499. 500. 501. 502. 503. 504. 505. 506. 507. 508. 509. 510. 511. 512. 513. 514. 515. 516. 517. 518. 519. 520. 521. 522. 523. 524. 525. 526. 527. 528. 529. 530. 531. 532. 533. 534. 535. 536. 537. 538. 539. 540. 541. 542. 543. 544. 545. 546. 547. 548. 549. 550. 551. 552. 553. 554. 555. 556. 557. 558. 559. 560. 561. 562. 563. 564. 565. 566. 567. 568. 569. 570. 571. 572. 573. 574. 575. 576. 577. 578. 579. 580. 581. 582. 583. 584. 585. 586. 587. 588. 589. 590. 591. 592. 593. 594. 595. 596. 597. 598. 599. 600. 601. 602. 603. 604. 605. 606. 607. 608. 609. 610. 611. 612. 613. 614. 615. 616. 617. 618. 619. 620. 621. 622. 623. 624. 625. 626. 627. 628. 629. 630. 631. 632. 633. 634. 635. 636. 637. 638. 639. 640. 641. 642. 643. 644. 645. 646. 647. 648. 649. 650. 651. 652. 653. 654. 655. 656. 657. 658. 659. 660. 661. 662. 663. 664. 665. 666. 667. 668. 669. 670. 671. 672. 673. 674. 675. 676. 677. 678. 679. 680. 681. 682. 683. 684. 685. 686. 687. 688. 689. 690. 691. 692. 693. 694. 695. 696. 697. 698. 699. 700. 701. 702. 703. 704. 705. 706. 707. 708. 709. 710. 711. 712. 713. 714. 715. 716. 717. 718. 719. 720. 721. 722. 723. 724. 725. 726. 727. 728. 729. 730. 731. 732. 733. 734. 735. 736. 737. 738. 739. 740. 741. 742. 743. 744. 745. 746. 747. 748. 749. 750. 751. 752. 753. 754. 755. 756. 757. 758. 759. 760. 761. 762. 763. 764. 765. 766. 767. 768. 769. 770. 771. 772. 773. 774. 775. 776. 777. 778. 779. 780. 781. 782. 783. 784. 785. 786. 787. 788. 789. 790. 791. 792. 793. 794. 795. 796. 797. 798. 799. 800. 801. 802. 803. 804. 805. 806. 807. 808. 809. 810. 811. 812. 813. 814. 815. 816. 817. 818. 819. 820. 821. 822. 823. 824. 825. 826. 827. 828. 829. 830. 831. 832. 833. 834. 835. 836. 837. 838. 839. 840. 841. 842. 843. 844. 845. 846. 847. 848. 849. 850. 851. 852. 853. 854. 855. 856. 857. 858. 859. 860. 861. 862. 863. 864. 865. 866. 867. 868. 869. 870. 871. 872. 873. 874. 875. 876. 877. 878. 879. 880. 881. 882. 883. 884. 885. 886. 887. 888. 889. 890. 891. 892. 893. 894. 895. 896. 897. 898. 899. 900. 901. 902. 903. 904. 905. 906. 907. 908. 909. 910. 911. 912. 913. 914. 915. 916. 917. 918. 919. 920. 921. 922. 923. 924. 925. 926. 927. 928. 929. 930. 931. 932. 933. 934. 935. 936. 937. 938. 939. 940. 941. 942. 943. 944. 945. 946. 947. 948. 949. 950. 951. 952. 953. 954. 955. 956. 957. 958. 959. 960. 961. 962. 963. 964. 965. 966. 967. 968. 969. 970. 971. 972. 973. 974. 975. 976. 977. 978. 979. 980. 981. 982. 983. 984. 985. 986. 987. 988. 989. 990. 991. 992. 993. 994. 995. 996. 997. 998. 999. 1000.

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision Date, as published in Rule 68-11-1609(c):

At the latest, the applicant expects to receive approval on March 26, 2014.

Assuming the CON decision becomes the final Agency action on that date, indicate the number of days from the above agency decision date to each phase of the completion forecast.

| PHASE | DAYS
REQUIRED | Anticipated Date
(MONTH /YEAR) |
|--|------------------|-----------------------------------|
| 1. Architectural & engineering contract signed | 1 | 3-27-14 |
| 2. Construction documents approved by TDH | 33 | 5-1-14 |
| 3. Construction contract signed | 42 | 5-10-14 |
| 4. Building permit secured | 47 | 5-15-14 |
| 5. Site preparation completed | na | na |
| 6. Building construction commenced | 62 | 6-1-14 |
| 7. Construction 40% complete | 137 | 9-15-14 |
| 8. Construction 80% complete | 197 | 10-15-14 |
| 9. Construction 100% complete | 242 | 11-30-14 |
| 10. * Issuance of license | 270 | 12-28-14 |
| 11. *Initiation of service | 273 | 1-1-15 |
| 12. Final architectural certification of payment | 333 | 3-1-15 |
| 13. Final Project Report Form (HF0055) | 393 | 5-1-15 |

*** For projects that do NOT involve construction or renovation: please complete items 10-11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

INDEX OF ATTACHMENTS

| | |
|------------------------------|--|
| A.4 | Ownership--Legal Entity And List of Select Facilities in Tennessee |
| A.6 | Site Control--Executed Lease Conditional on CON Approval |
| B.II.A. | Square Footage and Costs Per Square Footage Chart |
| B.III. | Plot Plan |
| B.IV. | Floor Plan |
| C, Need--3 | Service Area Maps |
| C, Economic Feasibility--1 | Documentation of Construction Cost Estimate |
| C, Economic Feasibility--2 | Documentation of Availability of Funding |
| C, Economic Feasibility--10 | Financial Statements |
| C, Orderly Development--7(C) | Licensing Inspection |
| Miscellaneous Information | TennCare Enrollments in Service Area Counties |
| Support Letters | |

A.4--Ownership
Legal Entity, Licensure, Accreditation and
Affiliated Facilities in Tennessee

Board for Licensing Health Care Facilities



State of Tennessee

DEPARTMENT OF HEALTH

This is to certify, that a license is hereby granted by the State Department of Health to

to conduct and maintain a

Hospital

SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE

Located at

900 EAST OAK HILL AVENUE, 4TH FLOOR, MARIAN WING, KNOXVILLE

County of

KNOX, Tennessee.

This license shall expire

JUNE 18

2014, and is subject

to the provisions of Chapter 18, Tennessee Code Annotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the laws of the State of Tennessee or the rules and regulations of the State Department of Health issued hereunder.

In Witness Whereof, we have hereunto set our hand and seal of the State this 18TH day of JUNE, 2013.

In the District Category(es) of:

CHRONIC DISEASE HOSPITAL



By David J. Davis, MPH
DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

By M. J. Dyer, MD
COMMISSIONER

Select Specialty Hospital North Knoxville Knoxville, TN

has been Accredited by



The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the
Hospital Accreditation Program

February 8, 2013.

Accreditation is customarily valid for up to 36 months.

Rebecca J. Patchin, M.D.
Rebecca J. Patchin, M.D.
Chair, Board of Commissioners

Organization ID #192995
Print/Reprint Date 05/15/13

Mark R. Chassin, MD, FACH, MPP, MPH
Mark R. Chassin, MD, FACH, MPP, MPH
President

The Joint Commission is an independent, not-for-profit, national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at www.jointcommission.org.



Secretary of State

Corporations Section

James K. Polk Building, Suite 1800

Nashville, Tennessee 37243-0306

DATE: 03/05/99
REQUEST NUMBER: 3637-3043
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 03/05/99 1045
EFFECTIVE DATE/TIME: 03/05/99 1045
CONTROL NUMBER: 0325145

TO:
CT CORPORATION SYSTEM-DANEEN E MAURER
1635 MARKET STREET

PHILADELPHIA, PA 19103

RE:
SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE, INC.
APPLICATION FOR AMENDED CERTIFICATE OF
AUTHORITY - FOR PROFIT

THIS WILL ACKNOWLEDGE THE FILING OF THE ATTACHED DOCUMENT WITH AN
EFFECTIVE DATE AS INDICATED ABOVE.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR
FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR AMENDED CERTIFICATE OF
AUTHORITY - FOR PROFIT

ON DATE: 03/05/99

FROM:
C T CORPORATION SYSTEM (PHILADELPHIA, PA
1635 MARKET STREET
SEVEN PENN CENTER
PHILADELPHIA, PA 19103-0000

RECEIVED: FEES \$20.00 \$0.00
TOTAL PAYMENT RECEIVED: \$20.00

RECEIPT NUMBER: 00002447121
ACCOUNT NUMBER: 00000020



Riley C. Darnell

RILEY C. DARNELL
SECRETARY OF STATE

STATE OF MISSOURI



Jason Kander
Secretary of State

**CORPORATION DIVISION
CERTIFICATE OF GOOD STANDING**

I, JASON KANDER, Secretary of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

**SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE, INC.
00436891**

was created under the laws of this State on the 6th day of February, 1997, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 25th day of November, 2013

A handwritten signature in cursive script, reading "Jason Kander", is written over a horizontal line.

Secretary of State



STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION
CERTIFICATE OF AMENDMENT

WHEREAS,

SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE, INC.

FORMERLY,

INTENSIVA HOSPITAL OF KNOXVILLE, INC.

A CORPORATION ORGANIZED UNDER THE GENERAL AND BUSINESS CORPORATION LAW HAS DELIVERED TO ME A CERTIFICATE OF AMENDMENT OF ITS ARTICLES OF INCORPORATION AND HAS IN ALL RESPECTS COMPLIED WITH THE REQUIREMENTS OF LAW GOVERNING THE AMENDMENT OF ARTICLES OF INCORPORATION UNDER THE GENERAL BUSINESS CORPORATION LAW, AND THAT THE ARTICLES OF INCORPORATION OF SAID CORPORATION ARE AMENDED IN ACCORDANCE THEREWITH.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 5TH DAY OF FEBRUARY, 1999.

Rebecca McDowell Cook
Secretary of State



\$25.00



State of Missouri

Rebecca McDowell Cook, Secretary of State
P.O. Box 778, Jefferson City, Mo. 65102
Corporation Division

Amendment of Articles of Incorporation

(To be submitted in duplicate)

Pursuant to the provisions of The General and Business Corporation Law of Missouri, the undersigned Corporation certifies the following:

1. The present name of the Corporation is INTENSIVA HOSPITAL OF KNOXVILLE, INC.

The name under which it was originally organized was Intensiva Hospital of Knoxville, Inc.

2. An amendment to the Corporation's Articles of Incorporation was adopted by the shareholders on _____
January 18 _____, 19 99 .

3. Article Number 1 is amended to read as follows:

The name of the corporation is Select Specialty Hospital - North Knoxville, Inc.

(If more than one article is to be amended or more space is needed attach fly sheet.)

4. Of the 10 shares outstanding, 10 of such shares were entitled to vote on such amendment.

The number of outstanding shares of any class entitled to vote thereon as a class were as follows:

| <i>Class</i> | <i>Number of Outstanding Shares</i> |
|--------------|-------------------------------------|
|--------------|-------------------------------------|

| | |
|-------------------------|----|
| Holders of Common Stock | 10 |
|-------------------------|----|

5. The number of shares voted for and against the amendment was as follows:

| <i>Class</i> | <i>No. Voted For</i> | <i>No. Voted Against</i> |
|--------------|----------------------|--------------------------|
|--------------|----------------------|--------------------------|

| | | |
|-------------------------|----|--|
| Holders of Common Stock | 10 | |
|-------------------------|----|--|

6. If the amendment changed the number or par value of authorized shares having a par value, the amount in dollars of authorized shares having a par value as changed is:

n/a

If the amendment changed the number of authorized shares without par value, the authorized number of shares

without par value as changed and the consideration proposed to be received for such increased authorized shares without par value as are to be presently issued are:

n/a

7. If the amendment provides for an exchange, reclassification, or cancellation of issued shares, or a reduction of the number of authorized shares of any class below the number of issued shares of that class, the following is a statement of the manner in which such reduction shall be effected:

n/a

IN WITNESS WHEREOF, the undersigned, Staci Rhodes Shelley President or
has executed this instrument and its
Vice President
Assistant Secretary
Secretary or Assistant Secretary
has affixed its corporate seal hereto and
attested said seal on the 18th day of January, 1999.

Place
CORPORATE SEAL
Here
(If no seal, state "None.")

Select Specialty Hospital - North Knoxville, Inc.

Name of Corporation

ATTEST:

Kenneth L. Moore
Secretary or Assistant Secretary
Kenneth L. Moore, Assistant Secretary

By Staci Rhodes Shelley
President or Vice President
Staci Rhodes Shelley, Vice President

FILED AND CERTIFICATE
ISSUED

FEB 05 1999

State of Pennsylvania }
County of Cumberland } ss.

Rebecca McDowell Cook
SECRETARY OF STATE

I, Martha L. Blumenstein, a Notary Public, do hereby certify that
on this 18th day of January, 1999, personally appeared before me
Staci Rhodes Shelley who, being by me first duly sworn,
declared that he is the Vice President
of Select Specialty Hospital - North Knoxville, Inc.
that he signed the foregoing documents as Vice President of the corporation, and that the
statements therein contained are true.

(Notarial Seal)

Martha L. Blumenstein
Notary Public
My commission expires April 7, 2001

Notarial Seal
Martha L. Blumenstein, Notary Public
Lower Allen Twp., Cumberland County
My Commission Expires April 7, 2001
Member, Pennsylvania Association of Notaries

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION
CERTIFICATE OF INCORPORATION

WHEREAS, DUPLICATE ORIGINALS OF ARTICLES OF INCORPORATION OF
INTENSIVA HOSPITAL OF KNOXVILLE, INC.

HAVE BEEN RECEIVED AND FILED IN THE OFFICE OF THE SECRETARY OF
STATE, WHICH ARTICLES, IN ALL RESPECTS, COMPLY WITH THE
REQUIREMENTS OF GENERAL AND BUSINESS CORPORATION LAW;

NOW, THEREFORE, I, REBECCA MCDOWELL COOK, SECRETARY OF STATE
OF THE STATE OF MISSOURI, BY VIRTUE OF THE AUTHORITY VESTED IN
ME BY LAW, DO HEREBY CERTIFY AND DECLARE THIS ENTITY A BODY
CORPORATE, DULY ORGANIZED THIS DATE AND THAT IT IS ENTITLED TO
ALL RIGHTS AND PRIVILEGES GRANTED CORPORATIONS ORGANIZED UNDER
THE GENERAL AND BUSINESS CORPORATION LAW.

IN TESTIMONY WHEREOF, I HAVE SET MY
HAND AND IMPRINTED THE GREAT SEAL OF
THE STATE OF MISSOURI, ON THIS, THE
6TH DAY OF FEBRUARY, 1997.


Secretary of State



\$58.00

ARTICLES OF INCORPORATION
OF
INTENSIVA HOSPITAL OF KNOXVILLE, INC.

Honorable Rebecca M. Cook
Secretary of State
State of Missouri
Jefferson City, Missouri 65102

FILED AND CERTIFICATE OF
INCORPORATION ISSUED

FEB 06 1997

Rebecca M. Cook
SECRETARY OF STATE

The undersigned natural person of the age of eighteen (18) years or more for the purpose of forming a Corporation under The General and Business Corporation Law of Missouri hereby adopts the following Articles of Incorporation:

ARTICLE ONE

The name of the Corporation is Intensiva Hospital of Knoxville, Inc.

ARTICLE TWO

The address, including street and number, if any, of the Corporation's initial registered office in this State is 7733 Forsyth Boulevard, 12th Floor, St. Louis, Missouri 63105, and the name of its initial registered agent at such address is Thomas M. Walsh.

ARTICLE THREE

The aggregate number of shares which the Corporation shall have authority to issue shall be THIRTY THOUSAND SHARES, which shall have a par value of ONE DOLLAR (\$1.00) each, amounting in the aggregate to THIRTY THOUSAND (\$30,000.00) DOLLARS, and all of said shares shall be COMMON SHARES.

ARTICLE FOUR

The extent to which the preemptive rights of shareholders to acquire additional shares are granted, limited or denied is as follows:

No holder of any stock of the Corporation shall be entitled, as a matter of right, to purchase, subscribe for, or otherwise acquire any new or additional shares of stock of the Corporation of any class, or any options or warrants to purchase, subscribe for or otherwise acquire any such new or additional shares, or any shares, bonds, notes, debentures, or other securities convertible into or carrying options or warrants to purchase, subscribe for or otherwise acquire any such new or additional shares.

ARTICLE FIVE

The name and place of residence of each incorporator is as follows:

| | |
|-----------------|---------------------------|
| Larry K. Harris | 7070 Washington |
| | St. Louis, Missouri 63130 |

ARTICLE SIX

The number of Directors to constitute the Board of Directors is one (1).

In all elections of Directors of this Corporation cumulative voting shall not apply.

ARTICLE SEVEN

The duration of the Corporation is perpetual.

ARTICLE EIGHT

The Corporation is formed for the following PURPOSES and POWERS, to-wit:

(A) To own and operate a long-term care hospital and including all aspects thereof and all acts and actions incidental thereto.

(B) To buy, sell, procure, franchise, produce, manufacture and dispose of all kinds of goods, wares, foods, potables, drugs, merchandise, manufactures, commodities, furniture, machinery, tools, supplies and products, and generally to engage in and conduct any form of service, manufacturing, or mercantile enterprise not contrary to law.

(C) To apply for, secure, acquire by assignment, transfer, purchase or otherwise, and to exercise, carry out and enjoy any charter, license, patent, copyright, power, authority, franchise, concession, rights or privileges, which any government or authority or any corporation or other public body may be empowered to grant; and to pay for, aid in and contribute toward carrying the same into effect and to appropriate any of the Corporation's shares of stock, bonds and assets to defray the necessary costs, charges and expenses thereof.

(D) To borrow and loan money with or without security and to issue, sell, or pledge bonds, promissory notes, debentures and other obligations and evidences of indebtedness secured or unsecured.

(E) To contract with any person, firm, corporation, association or entity.

(F) To acquire the goodwill, rights, and property and to undertake the whole or any part of the assets or liabilities of any person, firm, association or corporation, to pay for the same in cash, the stock of this Corporation, bonds or otherwise; to hold or in any manner to dispose of the whole or any part of the property so purchased; to conduct in any lawful manner the whole or any part of

any business so acquired, and to exercise all the powers necessary or convenient in and about the conduct and management of such business.

(G) To purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise hold and possess or otherwise dispose of, shares of capital stock of, or any bonds, securities, or evidence of indebtedness created by any other corporation or corporations of this state or any other state, country, nation or government, and while owner of said stock to exercise all the rights, power, and privileges of ownership including the right to vote thereon.

(H) To purchase, acquire, use, lend, lease or hold, improve, operate, hypothecate, mortgage, sell or convey, and otherwise deal in and dispose of property of all kinds, both real and personal, including patents and patent rights from the United States and/or foreign countries, license privileges, inventions, franchises, improvement processes, copyrights, trademarks and trade names, and service marks relating to or useful in connection with the business of this Corporation.

(I) Subject to the limitations of The General and Business Corporation Law, to purchase, hold, sell, transfer, dispose of or deal in shares of its own capital stock.

(J) In general, and in addition to all of the foregoing, to carry on any business in connection with the aforesaid powers and purposes, and, further, to have and exercise all of the powers conferred by The General and Business Corporation Law whether or not done in connection with the specific powers hereinbefore set forth.

ARTICLE NINE

Except as otherwise specifically provided by statute, all powers of management and direct control of the Corporation shall be vested in the Board of Directors.

The power to make, alter, amend or repeal the By-Laws of the Corporation shall be vested in the Board of Directors. The exercise of such power shall require the affirmative vote of a majority of the Directors.

ARTICLE TEN

No contract or other transaction between this Corporation and any other firm or corporation shall be affected or invalidated by reason of the fact that any of the Directors or Officers of this Corporation are interested in or are members, shareholders, directors, or officers of such other firm or corporation; and any Director or Officer of this Corporation may be a party to or may be interested in any contract or transaction of this Corporation in which this Corporation is interested and no such contract or transaction shall be affected or invalidated thereby; and each and every person who may become a Director or Officer of this Corporation is hereby relieved from any liability as a result of holding any such position that might otherwise exist from contracting or transacting business with this Corporation for the benefit of such Director or Officer or of any person, firm, association or corporation in which such Director or Officer may be in anywise interested.

ARTICLE ELEVEN

The private property of the Shareholders of this Corporation shall not be subject to the payment of corporate debts, except to the extent of any unpaid balance of subscriptions for shares.

ARTICLE TWELVE

The power to amend and alter the Articles of Incorporation of the Corporation shall be vested solely in the holders of the Common stock of the Corporation (except to the extent that in certain circumstances the holders of any other class of stock may be entitled by law to vote). This power may be exercised (after such notice as may be required or waiver thereof) at any annual or special meeting of the holders of the aforementioned shares by a vote of a majority of such shares as are issued and outstanding and entitled to vote at such meeting.

ARTICLE THIRTEEN

Each Director or Officer, or former Director or Officer of this Corporation and his legal representatives, shall be indemnified by the Corporation against liabilities, expenses, counsel fees and costs reasonably incurred by him or his estate in connection with, or arising out of, any action, suit, proceeding or claim in which he is made a party by reason of his being or having been such Director or Officer; and any person who, at the request of this Corporation served as Director or Officer of another corporation in which this Corporation owned corporate stock and his legal representative shall in like manner be indemnified by this Corporation; provided, that in neither case shall the Corporation indemnify such Director or Officer with respect to any matters as to which he shall be finally adjudged in any such action, suit, or proceeding to have been liable for negligence or misconduct in the performance of his duties as such Director or Officer. The indemnification herein provided for, however, shall apply also in respect of any amount paid in compromise of any such action, suit, or proceeding or claim asserted against such Director or Officer (including expenses, counsel fees, and costs reasonably incurred in connection therewith), provided the Board of Directors shall have first approved such proposed compromise settlement and determined that the Officer or Director involved was not guilty of negligence or misconduct; but, in taking such action, any Director involved shall not be qualified to vote thereon, and if for this reason a quorum of the Board cannot be obtained to vote on such matters, it shall be determined by a Committee of three or more persons appointed by the Shareholders at a duly called special meeting or a regular meeting. In determining whether or not a Director or Officer was guilty of negligence or misconduct in relation to any such matter, the Board of Directors or Committee, as the case may be, may rely conclusively upon an opinion of independent counsel selected by such Board or Committee. The right to indemnification herein provided shall not be exclusive of any other rights not inconsistent herewith to which such Director or Officer may be entitled under the By-Laws of the Corporation, any agreement with the Corporation, under law, or otherwise.

IN WITNESS WHEREOF, these Articles of Incorporation have been executed on this 5th
day of February, 1997.

Incorporator:


Larry K. Harris

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

I, Lynn Philipak Black, a Notary Public, do hereby certify that on this 5th
day of February, 1997, personally appeared before me Larry K. Harris, who, being by me first duly
sworn, declared that he is the person who signed the foregoing document as Incorporator and that
the statements therein contained are true.


Notary Public

My commission expires: 4-22-98

LYNN PHILIPAK BLACK
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: 4/22/98

Larry K. Harris
Suelthaus & Walsh, P.C.
Attorney for Incorporator
7733 Forsyth Boulevard
12th Floor
St. Louis, Missouri 63105
Telephone: (314) 727-7676

FILED AND CERTIFICATE OF
INCORPORATION ISSUED
FEB 06 1997

REBECCA McDONALD
SECRETARY OF STATE

Select Specialty Hospitals in Tennessee

Select Specialty Hospital--Memphis
5959 Park Avenue (12th Floor)
Memphis, TN 38119

Select Specialty Hospital--Nashville
2000 Hayes Street, Suite 1502
Nashville, TN 37203

Select Specialty Hospital--Knoxville
1901 Clinch Avenue (4th Floor)
Knoxville, TN 37916

Select Specialty Hospital--North Knoxville
900 East Oak Hill Avenue (4th Floor)
Knoxville, TN 37917

Select Specialty Hospital--Tri-Cities
One Medical Park Boulevard (5th Floor West)
Bristol, TN 37620



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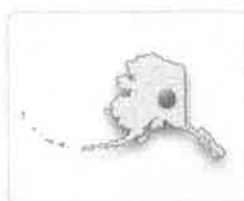
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Family of Brands



SSM Physical Therapy





Exceptional Experience. Compassionate Environment.

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Services

Our specialty hospitals are designed for medically-complex and critically-ill patients who require a longer acute care hospitalization. The medical rehabilitation hospitals provide intensive rehabilitation to patients recovering from traumatic injuries and other serious conditions. Select Medical's Outpatient Division includes outpatient physical rehabilitation centers and contract therapy. The outpatient clinics provide a wide range of services including physical therapy, hand therapy, low back rehabilitation, work injury management, sports performance and other specialized services. Our contract therapy business provides physical rehabilitation services on a contract basis primarily at nursing homes, hospitals, assisted living and senior care centers, schools and worksites.

[CONTACT US](#)

Select Medical is committed to the ongoing effort to sustain high quality. Each year, at least three million hours are devoted to tracking, reporting, and analyzing the key quality metrics detailed in the **2012 Quality and Corporate Social Responsibility Report**.



Long-Term Acute Care Hospitals

Select Medical's long-term acute care hospitals (LTACHs) primarily operate as Select Specialty Hospitals, Regency Hospitals and Great Lakes Specialty Hospitals. These hospitals provide highly specialized care to promote recovery from the most critical and complex medical conditions. [Learn More »](#)



Inpatient Rehabilitation Hospitals

Select Medical's highly regarded rehabilitation hospitals provide comprehensive physical medicine, as well as rehabilitation programs and services that optimize patient health, function and quality of life. [Learn More »](#)



Outpatient Rehabilitation

Our outpatient clinical teams provide preventative and rehabilitative services that maximize functionality and promote well-being. Individualized treatment plans are developed to help achieve each patient's specific goals. These centers also offer specialized services focusing on areas as diverse as TMJ care, women's health and vestibular rehabilitation. [Learn More »](#)



Business Solutions

Select Medical works with partners to deliver outstanding outcomes, based on collaborative, interpersonal working relationships. Select Medical's contract therapy services division, Select Medical Rehabilitation Services, provides physical, occupational and speech-language therapy services to skilled nursing facilities, senior care centers, schools... [Learn More »](#)

Featured Service



Ventilator Care

We understand the feeling of helplessness that often occurs when a loved one cannot breathe on their own. Being ventilator dependent is a difficult and vulnerable time for both patients and families. In a typical year, we treat more than 11,000 ventilator dependent

patients. Our experienced, highly skilled, highly trained ventilator teams provide the hope and help our patients need.

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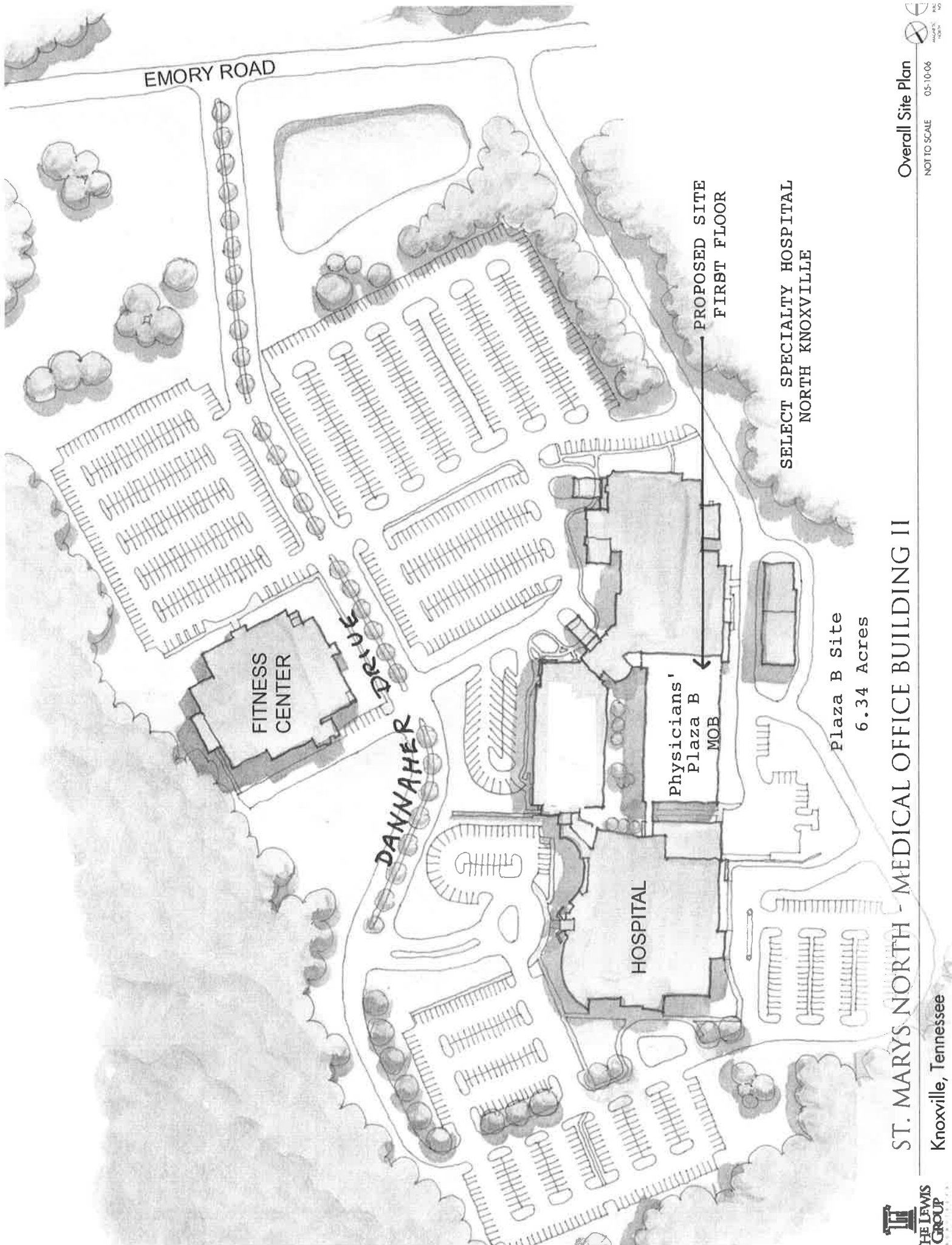
A.6--Site Control

**B.II.A.--Square Footage and Costs Per Square
Footage Chart**

B.III.--Plot Plan

Google





FITNESS
CENTER

DANNAHER
DRIVE

HOSPITAL

Physicians'
Plaza B
MOB

PROPOSED SITE
FIRST FLOOR

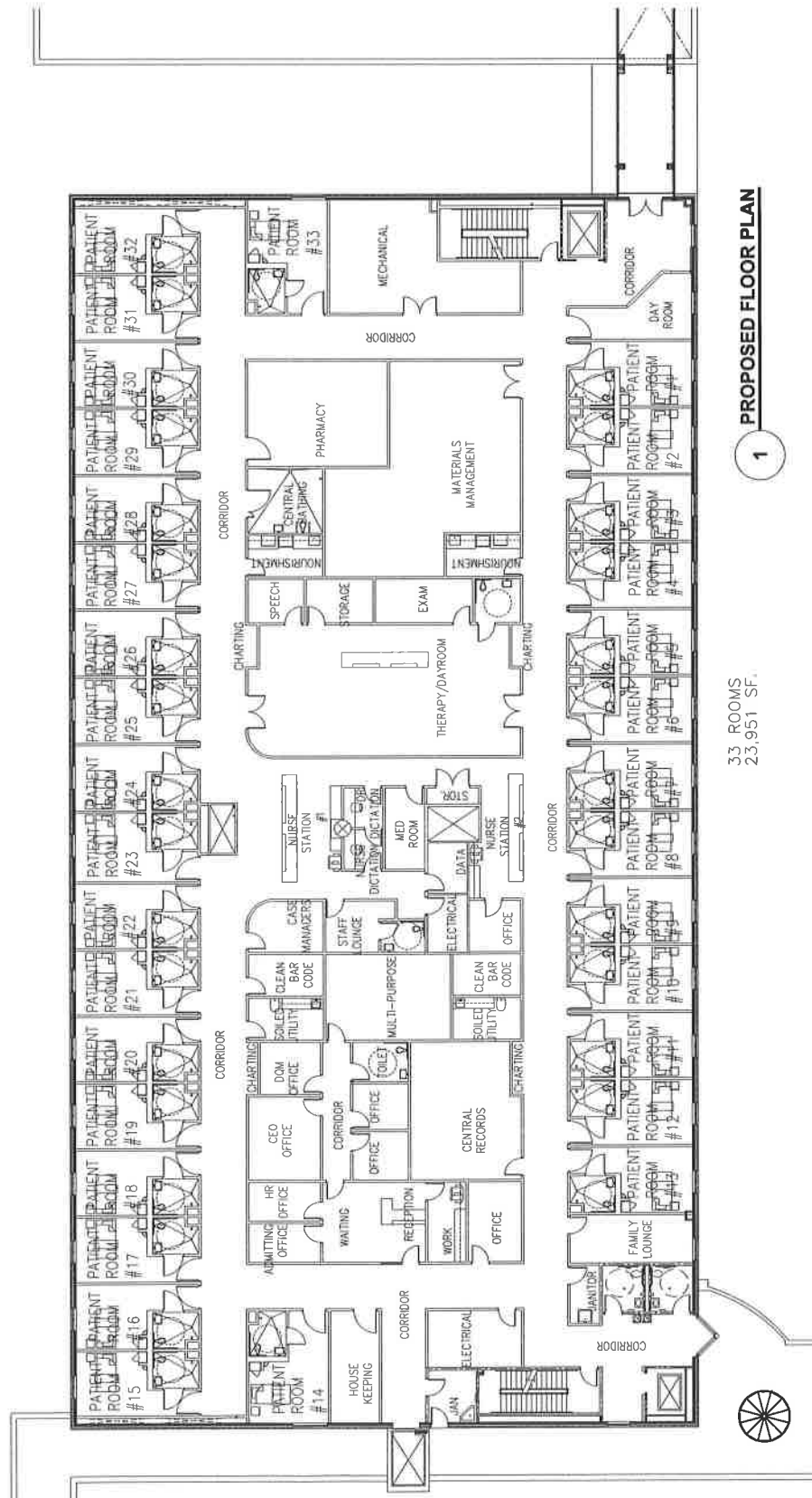
SELECT SPECIALTY HOSPITAL
NORTH KNOXVILLE

Plaza B Site
6.34 Acres

ST. MARYS NORTH - MEDICAL OFFICE BUILDING II

Knoxville, Tennessee

B.IV.--Floor Plan



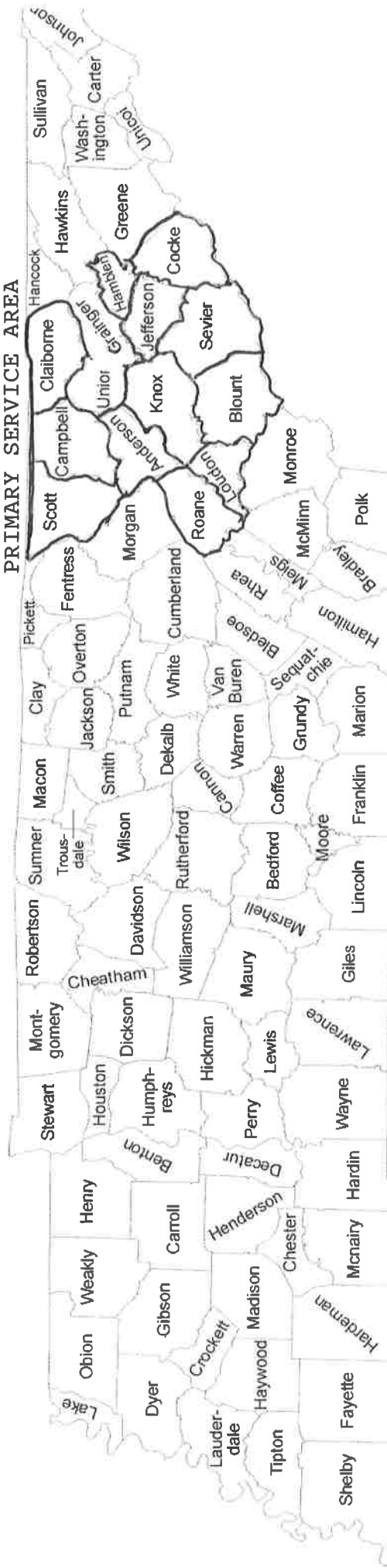
1 PROPOSED FLOOR PLAN

33 ROOMS
23,951 SF.

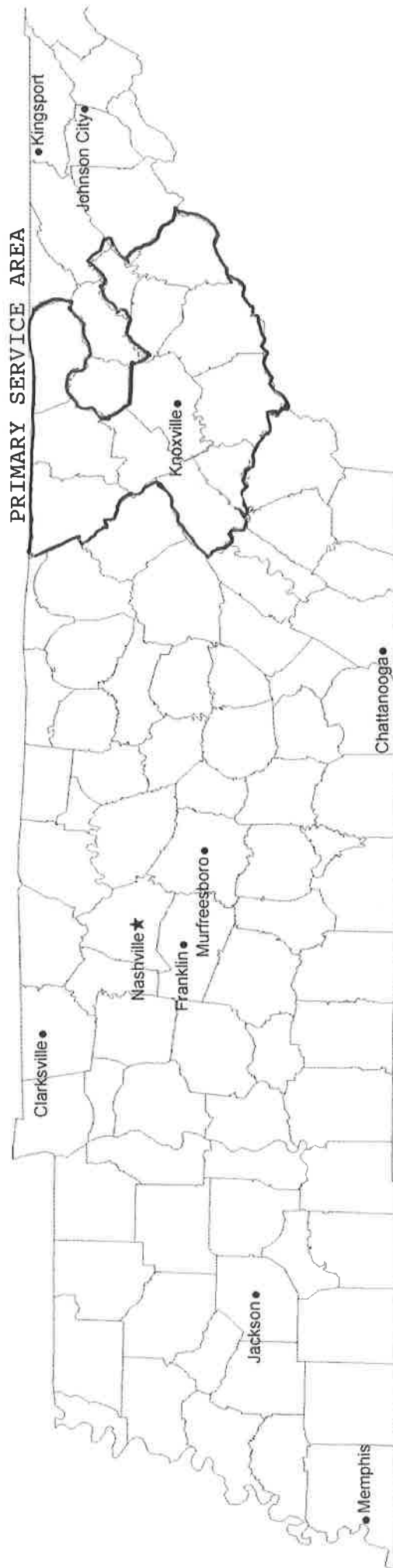
C, Need--3
Service Area Maps

SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE

PRIMARY SERVICE AREA



SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE



C, Economic Feasibility--1
Documentation of Construction Cost Estimate



November 27, 2013

Melanie Hill, Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street
Nashville, Tennessee 37203

RE: Select Specialty Hospital North Knoxville
Relocation Project

Dear Mrs. Hill;

Please allow this letter to serve as Currence & Gray Architects, PLLC, (C&G's) acknowledgement that C&G has reviewed Select Medical Corporation's construction cost estimate of \$5,025,000.00 for the renovation of a 23,624-SF nursing floor at North Knoxville Medical Center. Based on our experience with similar projects and on our knowledge of the current healthcare design costs, C&G feels that this construction cost estimate is both reasonable and sufficient for the proposed renovation.

We are basing our review and certification on the current building codes that would apply to the project. This list shown below is not intended to be inclusive, however it does demonstrate that the Project will be designed using the latest adopted codes, regulations and rules from the various Authorities having Jurisdiction (Local, State, and Federal). Please also note that C&G is a licensed Architect in the State of Tennessee.

- Guidelines for the Design and Construction of Health Care Facilities (current)
- Rules of the Tennessee Board for Licensing of Healthcare Facilities
- International Building Code (IBC)
- National Electrical Code (NEC)
- National Fire Protection Association Codes (NFPA Codes)
- Americans with Disabilities Act (ADA)

Sincerely,

CURRENCE & GRAY ARCHITECTS, PLLC

A handwritten signature in dark ink, appearing to be "Bill Gray".

George W. "Bill" Gray, A.I.A.
CEO

Cc: Dan Blaker, Select Medical Corporation
Todd Jackson, Brasfield & Gorrie

PARTNERS

JERRY E. CURRENCE, A.I.A.
GEORGE W. "BILL" GRAY, A.I.A.
MIKE CALLAHAN, A.I.A.
BRAM KEAHEY, A.I.A.

4600 Burrow Drive
North Little Rock, Arkansas 72116
501.768.7443 / phone
501.763.7309 / fax

C, Economic Feasibility--2
Documentation of Availability of Funding



November 27, 2013

Melanie M. Hill, Executive Director
Tennessee Health Facilities Commission
Andrew Jackson State Office Building, Suite 850
500 Deaderick Street
Nashville, Tennessee 37243

Dear Mrs. Hill:

Select Specialty Hospital--North Knoxville is applying for a Certificate of Need to relocate from its current location at Tennova Healthcare in Knoxville, to Tennova's North Knoxville Medical Center in Powell, still within Knox County. This will require a capital expenditure estimated at approximately \$6,677,000.

As Select Medical Corporation's Chief Financial Officer responsible for our Knoxville facilities, I am writing to confirm that Select Specialty Hospital--North Knoxville will fund the project in cash, and that it currently has sufficient cash reserves to do so.

Sincerely,

Signature and Title


Marty Jackson
Executive Vice President, Chief Financial Office
Select Medical Corporation

C, Economic Feasibility--10
Financial Statements




Y YTD BALANCE SHEET REPORT

Elect Medical Corporation
 Period: OCT-13 Currency: USD
 Submitted: 23-NOV-13 21:29:51

COMPANY=452 (North Knoxville) 

| | YTD |
|--|----------------------|
| Current assets: | |
| Cash and cash equivalents | 0.00 |
| Accounts receivables: | |
| Patient receivables | 4,103,164.74 |
| AR Clearing | (1,267,622.98) |
| Contractual adjustments | (1,759,470.55) |
| Allow for doubtful accounts | (234,935.91) |
| Other receivables | 0.00 |
| Prepaid expenses | 0.00 |
| Other current assets | 59,793.57 |
| Total current assets | 900,928.87 |
| Affiliates: | |
| Investments in | 0.00 |
| Advances to | 9,878,274.22 |
| Total affiliates | 9,878,274.22 |
| Property and equipment: | |
| Land | 0.00 |
| Building and improvements | 295,303.94 |
| Assets under capital leases | 0.00 |
| Furniture and equipment | 1,387,291.91 |
| Asset Clearing | 0.00 |
| Total fixed assets | 1,682,595.85 |
| Less accum. deprec | (1,287,545.45) |
| Net val property, plant & equip | 395,050.40 |
| Construction in progress | 3,152.26 |
| Total property, plant & equip | 398,202.66 |
| Other assets: | |
| Deposits | 0.00 |
| Prepaid rent | 0.00 |
| Goodwill, net | 0.00 |
| Other intangibles | 0.00 |
| Mgmt service agreements | 0.00 |
| Long term investments | 0.00 |
| Notes receivable | 0.00 |
| Deferred costs, net | 0.00 |
| Deferred financing costs, net | 0.00 |
| Other noncurrent assets | 0.00 |
| Total noncurrent assets | 0.00 |
| Total assets | 11,177,405.75 |

 RESERVE
 AVAILABLE
 FOR
 THIS PROJECT

COMPANY=452 (North Knoxville)

| | <i>YTD</i> |
|--|----------------|
| Current liabilities: | |
| Notes payable | |
| Current portion of L-T debt: | |
| Seller notes - current | 0.00 |
| Notes and mortgages | 0.00 |
| Capital leases | 0.00 |
| Accounts payable | 774,638.41 |
| Accrued expenses: | |
| Payroll | 0.00 |
| Vacation | 178,830.22 |
| Insurance | 0.00 |
| Other | 170,188.14 |
| Due to third party payor | (1,399,361.90) |
| Income taxes: | |
| Current | 0.00 |
| Deferred | 0.00 |
| Total current liabilities | (275,705.13) |
| L-T debt, net of current portion: | |
| Notes, mortgages & conv. debt | 0.00 |
| Seller notes - LT | 0.00 |
| Subordinate debt | 0.00 |
| Credit facility debt | 0.00 |
| Capital leases | 0.00 |
| Other liabilities: | |
| Deferred income taxes | 0.00 |
| Other L-T liabilities | 0.00 |
| Total L-T debt & liab | 0.00 |
| Minority interest: | |
| Capital | 0.00 |
| Retained earnings | 0.00 |
| Total minority interest | 0.00 |
| Shareholders & partners equity: | |
| Common stock | 0.00 |
| Preferred stock (Class A) | 0.00 |
| Preferred stock (Class B) | 0.00 |
| Preferred stock dividends | 0.00 |
| Distributions | 0.00 |
| Capital in excess of par | 1,411,379.90 |
| Retained earnings, prior | 7,974,397.74 |
| Current year net income (loss) | 2,067,333.24 |
| Total S & P equity | 11,453,110.88 |
| Total liabilities & equity | 11,177,405.75 |



IP INCOME STATEMENT YTD TREND REPORT

Soltec Medical Corporation
Period: OCT-13 Current: USD
Submitted: 22-NOV-13 10:01:44

COMPANY=452 (North Knoxville)

| | NOV-12 | DEC-12 | JAN-13 | FEB-13 | MAR-13 | APR-13 | ACTUALS
MAR-13 | | JUN-13 | JUL-13 | AUG-13 | SEP-13 | OCT-13 | TOTAL |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| CNH Medicare NTID | 1.10 | 1.03 | 1.10 | 1.00 | 1.12 | 1.30 | 1.10 | 1.10 | 1.28 | 1.24 | 0.97 | 1.10 | 1.18 | 13.22 |
| CNH Medicare YTD | 1.11 | 1.10 | 1.10 | 1.05 | 1.07 | 1.13 | 1.12 | 1.13 | 1.15 | 1.16 | 1.13 | 1.13 | 1.16 | 13.41 |
| Equivalent Patient Days | 765.00 | 772.00 | 825.00 | 817.00 | 835.00 | 824.00 | 888.00 | 888.00 | 685.00 | 855.00 | 665.00 | 725.00 | 753.00 | 9,410.00 |
| Average Daily Census | 25.50 | 24.90 | 26.61 | 29.18 | 26.94 | 27.47 | 28.65 | 28.65 | 22.93 | 27.52 | 21.45 | 24.17 | 25.29 | 25.78 |
| IP Physician Rounds | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| REVENUES | | | | | | | | | | | | | | |
| Inpatient Routine | 784,125.00 | 790,275.00 | 840,500.00 | 906,093.85 | 925,031.75 | 913,857.20 | 984,836.40 | 984,836.40 | 763,026.40 | 946,019.65 | 737,518.25 | 804,061.25 | 835,114.65 | 10,230,459.40 |
| Inpatient Ancillary | 1,238,157.29 | 2,071,211.63 | 2,108,683.50 | 2,068,360.29 | 2,501,860.86 | 2,157,969.23 | 2,585,044.36 | 2,585,044.36 | 1,692,575.18 | 1,868,880.01 | 1,604,276.84 | 1,967,634.26 | 2,138,528.12 | 24,023,181.57 |
| Outpatient Ancillary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Patient Revenues | 2,042,282.29 | 2,861,486.63 | 2,949,183.50 | 2,974,454.14 | 3,426,892.61 | 3,071,826.43 | 3,569,880.76 | 3,569,880.76 | 2,455,601.58 | 2,814,899.66 | 2,341,795.09 | 2,771,695.51 | 2,973,642.77 | 34,253,640.97 |
| DEDUCTIONS FROM REVENUE | | | | | | | | | | | | | | |
| Contractual Allowance | 253,921.62 | 1,092,253.06 | 1,269,379.38 | 1,227,788.03 | 1,396,761.49 | 1,449,178.42 | 1,646,469.46 | 1,646,469.46 | 884,943.31 | 1,219,781.48 | 1,084,803.41 | 1,513,633.30 | 1,141,441.72 | 14,180,354.68 |
| Contracted Discounts | 748,373.79 | 599,320.83 | 619,363.39 | 741,193.93 | 467,167.36 | 511,447.63 | 740,310.91 | 740,310.91 | 707,954.43 | 372,753.78 | 356,818.41 | 247,525.31 | 584,576.89 | 6,697,308.65 |
| Prior Year Contractual Adj | 0.00 | 0.00 | 0.00 | 0.00 | 233,307.10 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,266.00 | 0.00 | 0.00 | 234,573.10 |
| Other Revenue Deductions | 0.18 | (0.10) | (0.02) | 0.11 | 0.02 | (0.02) | 0.01 | 0.01 | 0.00 | (0.04) | 0.00 | (0.02) | 0.08 | 0.20 |
| Total Revenue Deductions | 1,002,935.59 | 1,691,573.79 | 1,888,742.75 | 1,968,982.07 | 2,096,235.97 | 1,960,626.03 | 2,386,780.38 | 2,386,780.38 | 1,592,897.73 | 1,592,535.22 | 1,443,887.82 | 1,761,158.59 | 1,726,018.69 | 21,112,356.63 |
| NET PATIENT REVENUE | 1,039,346.70 | 1,169,912.84 | 1,060,440.75 | 1,005,472.07 | 1,330,656.64 | 1,111,200.40 | 1,183,100.38 | 1,183,100.38 | 862,703.85 | 1,222,364.44 | 897,907.27 | 1,010,536.92 | 1,247,624.08 | 13,141,404.34 |
| Other Revenue | 0.00 | 80.00 | 0.00 | 108.00 | 139.30 | 40.00 | 7.46 | 7.46 | 399.85 | 42.18 | 280.72 | 140.12 | 0.00 | 1,237.63 |
| TOTAL NET REVENUE | 1,039,346.70 | 1,169,992.84 | 1,060,440.75 | 1,005,580.07 | 1,330,795.94 | 1,111,240.40 | 1,183,107.84 | 1,183,107.84 | 863,103.70 | 1,222,406.62 | 898,187.99 | 1,010,677.04 | 1,247,624.08 | 13,142,641.97 |
| OPERATING EXPENSES | | | | | | | | | | | | | | |
| Salaries & Wages | 420,700.00 | 338,516.42 | 402,244.51 | 370,364.87 | 423,158.76 | 394,887.59 | 448,113.47 | 448,113.47 | 371,594.00 | 439,887.81 | 377,465.87 | 381,262.50 | 415,058.50 | 4,803,954.70 |
| Benefits | 64,006.84 | 56,584.46 | 85,330.77 | 86,329.44 | 80,788.33 | 71,089.00 | 82,828.84 | 82,828.84 | 59,664.98 | 70,449.54 | 58,454.34 | 59,491.39 | 74,617.80 | 849,635.73 |
| Contracted Departments | 190,833.46 | 190,237.60 | 170,033.04 | 169,325.54 | 171,906.42 | 179,228.69 | 223,215.16 | 223,215.16 | 138,178.68 | 192,672.70 | 181,523.60 | 183,251.42 | 163,237.45 | 2,175,340.76 |
| Physician Fees | 13,674.40 | 13,316.88 | 15,066.88 | 11,664.44 | 16,044.88 | 12,474.40 | 17,091.88 | 17,091.88 | 11,712.40 | 13,541.88 | 14,541.88 | 13,299.40 | 11,291.88 | 163,718.20 |
| Medical Supplies | 92,692.71 | 97,380.41 | 122,394.36 | 99,517.83 | 109,849.81 | 102,541.65 | 121,645.92 | 121,645.92 | 60,827.74 | 111,037.18 | 76,042.48 | 91,415.38 | 118,458.93 | 1,203,805.93 |
| Food & Other Supplies | 3,415.33 | 3,547.72 | 4,673.85 | 2,985.52 | 3,766.42 | 6,026.33 | 2,652.76 | 2,652.76 | 8,047.59 | 6,250.29 | 3,537.31 | 3,122.07 | 4,382.94 | 52,408.13 |
| Equipment Lease & Rentals | 22,888.57 | 20,608.85 | 18,972.25 | 23,682.01 | 28,549.86 | 28,231.70 | 29,343.52 | 29,343.52 | 14,044.60 | 19,725.85 | 19,731.83 | 21,344.56 | 19,234.97 | 266,258.57 |
| Other Fees | 2,123.88 | 910.82 | 3,283.58 | 5,575.54 | 1,712.56 | 4,960.76 | 726.39 | 726.39 | 1,779.02 | 3,038.00 | 1,034.84 | 1,409.03 | 1,585.16 | 28,139.58 |
| Data Processing Fees | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Repairs & Maintenance | 6,898.96 | 3,119.68 | 7,711.26 | 8,956.24 | 5,681.89 | 12,661.05 | 12,896.27 | 12,896.27 | 8,625.04 | 5,067.61 | 5,734.38 | 7,789.39 | 6,089.46 | 91,231.23 |
| Utilities | 2,221.64 | 2,160.60 | 1,577.32 | 1,688.08 | 1,179.53 | 1,489.84 | 1,772.67 | 1,772.67 | 334.55 | 893.32 | 2,323.46 | 1,946.34 | 1,868.56 | 19,755.91 |
| Insurance | 7,779.00 | 7,779.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 8,091.00 | 97,816.10 |
| Taxes, Non-Income | 1,072.12 | 0.00 | 463.58 | 463.58 | 463.58 | 852.44 | 852.44 | 852.44 | 1,066.71 | 1,066.71 | 1,066.71 | 1,066.71 | 1,066.71 | 9,501.29 |
| Other Expenses | 8,164.91 | 11,078.80 | 7,993.10 | 9,835.54 | 9,137.58 | 8,312.97 | 12,718.72 | 12,718.72 | 7,752.86 | 7,670.33 | 10,041.23 | 7,291.93 | 9,867.48 | 109,865.45 |
| Bad Debt Expenses | 28,617.00 | 32,214.00 | 42,927.00 | 11,696.00 | 1,988.00 | (17,710.00) | 2,479.00 | 2,479.00 | (1,609.00) | 61,466.00 | 4,663.00 | (78,149.00) | 15,282.00 | 149,604.00 |
| Corporate Services | 19,497.31 | 17,587.94 | 21,139.29 | 19,852.56 | 21,379.03 | 20,065.56 | 25,145.11 | 25,145.11 | 19,703.08 | 16,075.12 | 21,252.59 | 12,977.91 | 18,304.95 | 232,980.45 |
| Total Operating Expenses | 884,786.13 | 815,043.18 | 911,903.79 | 830,028.19 | 887,694.65 | 842,202.98 | 990,573.15 | 990,573.15 | 726,753.25 | 946,628.34 | 785,506.52 | 754,410.03 | 871,785.82 | 10,754,010.03 |
| NET OPERATING PROFIT | 154,700.57 | 354,949.66 | 148,536.96 | 175,551.88 | 443,101.29 | 268,337.42 | 192,534.69 | 192,534.69 | 136,348.45 | 265,778.28 | 112,681.47 | 256,267.01 | 375,838.26 | 2,388,625.94 |

C, Orderly Development--7(C)
Licensing Inspection



May 7, 2013

Re: # 192995

CCN: #442015

Program: Hospital

Accreditation Expiration Date: February 08, 2016

Steve Plumlee
Chief Executive Officer
Select Specialty Hospital - North Knoxville
900 East Oak Hill Avenue
Knoxville, Tennessee 37917

Dear Mr. Plumlee:

This letter confirms that your February 06, 2013 - February 07, 2013 unannounced full resurvey was conducted for the purposes of assessing compliance with the Medicare conditions for hospitals through The Joint Commission's deemed status survey process.

Based upon the submission of your evidence of standards compliance on April 05, 2013, the areas of deficiency listed below have been removed. The Joint Commission is granting your organization an accreditation decision of Accredited with an effective date of February 08, 2013. We congratulate you on your effective resolution of these deficiencies.

§482.24 Medical Record Services
§482.41 Physical Environment

The Joint Commission is also recommending your organization for continued Medicare certification effective February 08, 2013. Please note that the Centers for Medicare and Medicaid Services (CMS) Regional Office (RO) makes the final determination regarding your Medicare participation and the effective date of participation in accordance with the regulations at 42 CFR 489.13. Your organization is encouraged to share a copy of this Medicare recommendation letter with your State Survey Agency.

This recommendation applies to the following location:

Select Specialty Hospital - North Knoxville, Inc.
900 East Oak Hill Avenue, Knoxville, TN, 37917

We direct your attention to some important Joint Commission policies. First, your Medicare report is publicly accessible as required by the Joint Commission's agreement with the Centers for Medicare and Medicaid Services. Second, Joint Commission policy requires that you inform us of any changes in the name or ownership of your organization, or health care services you provide.

www.jointcommission.org

Headquarters
One Renaissance Boulevard
Oakbrook Terrace, IL 60181
630 792 5000 Voice



Sincerely,

A handwritten signature in dark ink, appearing to read 'Mark G. Pelletier'.

Mark G. Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

cc: CMS/Central Office/Survey & Certification Group/Division of Acute Care Services
CMS/Regional Office 4 /Survey and Certification Staff

www.jointcommission.org

Headquarters
One Renaissance Boulevard
Oakbrook Terrace, IL 60181
630 792 5000 Voice



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
5904 LYONS VIEW PIKE, BLDG. 1
KNOXVILLE, TENNESSEE 37919

August 15, 2007

Mr. Joey Sweeney, Administrator
Select Specialty Hospital - North Knoxville
900 East Oak Hill Avenue
Knoxville TN 37917

Dear Mr. Sweeney:

Deficiencies were cited on your annual survey conducted May 30 and 31, 2006. On August 23, 2006, an acceptable Plan of Correction was received in this office.

A revisit was completed August 24, 2006, to verify that your facility had achieved and maintained compliance. Based on our revisit, we found that your facility had demonstrated compliance with the deficiencies cited. This office is recommending recertification in the Medicare and Medicaid programs.

If you should have any questions concerning this letter, please contact our office. 865-588-5656.

Sincerely,

A handwritten signature in cursive script that reads "Faye Vance / afl".

Faye Vance, R.N., B.S., M.S.N.
Public Health Nurse Consultant Manager

FV:afl



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
5904 LYONS VIEW PIKE, BLDG. 1
KNOXVILLE, TENNESSEE 37919

August 15, 2006

Ms. Vanda Scott, Administrator
Select Specialty Hospital-North Knoxville
900 East Oak Hill Avenue, 4th Floor
Knoxville TN 37917

Dear Administrator:

Enclosed is a Statement of Deficiencies that was developed as a result of the State Licensure Revisit at Select Specialty Hospital - N. Knoxville on July 19 and August 11, 2006. Corrective action must be achieved prior to September 25, 2006, the forty-fifth (45th) day from the ending date of the survey. A revisit may be conducted to verify compliance.

Please develop a Plan of Correction for the deficiencies cited and return within (10) days after receipt of this letter to:


Health Care Facilities
Lake Shore Park
5904 Lyons View Pike, Bldg. 1
Knoxville, TN 37919

Your FOC must contain the following:

- ☐ What corrective action(s) will be accomplished for those patients found to have been affected by the deficient practice:
- ☐ How will you identify other patients having the potential to be affected by the same deficient practice and what corrective action will be taken.
- ☐ What measures will be put into place or what systemic changes you will make to ensure that the deficient practice does not recur: and
- ☐ How will the corrective action(s) will be monitored to ensure the deficient practice will not recur; i.e., what quality assurance program will be put into place.

If you have any questions, please do not hesitate to call.

Sincerely,


Faye Vance, RN, BS, MSN
Public Health Nurse Consultant Manager

FV:af1
Enclosure: 2567

PRINTED: 08/11/2006
FORM APPROVED

Division of Health Care Facilities

| | | | | | |
|--|---|---|--|--------------------|--|
| STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION | | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:

TNP531148 | (X2) MULTIPLE CONSTRUCTION
A. BUILDING _____
B. WING _____ | | (X3) DATE SURVEY COMPLETED

08/11/2006 |
| NAME OF PROVIDER OR SUPPLIER

SELECT-SPECIALTY HOSPITAL-NORTH KNOX | | | STREET ADDRESS, CITY, STATE, ZIP CODE
900 OAK HILL AVENUE-4TH FLOOR
KNOXVILLE, TN 37917 | | |
| (X4) ID PREFIX TAG | SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY) | (X5) COMPLETE DATE | |
| H682 | 1200-8-1-.06 (4)(k) Basic Hospital Functions

(4) Nursing Services.

(k) All orders for drugs, devices and related materials must be in writing and signed by the practitioner or practitioners responsible for the care of the patient. Electronic and computer-generated records and signature entries are acceptable. When telephone or oral orders must be used, they must be:

1. Accepted only by personnel that are authorized to do so by the medical staff policies and procedures, consistent with federal and state law; and,

2. Signed or initialed by the prescribing practitioner according to hospital policy.

This Statute is not met as evidenced by:
Based on medical record review, review of facility policy, interview and observation, the facility failed to obtain a physician's order for restraints for one (#4) of two patients reviewed with restraints.

The findings included:

Patient # 4 was admitted to the facility on August 7, 2006, with an admission diagnosis of Respiratory Failure with Ventilator. Medical record review revealed a nursing note dated August 11, 2006, at 4:30 am, stating "Pt has pulled on flexiflow tube and appears to have aspirated tube feeding. Suctioned large amount thick tan sputum. Bilateral wrist restraints placed for safety." Medical record review on August 11, 2006, at 9:30 am, revealed no physician's order for the soft bilateral wrist restraints. Review of the | H682 | 1200-8-1.06 (4)(k)

<u>Findings:</u> A medical record review, review of facility policy, interview and observation, the facility failed to obtain a physician's order for restraints for one of two patients reviewed with restraints.

<u>POC:</u> Nurse Manager reviewed the Restraint Policy and obtaining a physician's order prior to or immediately after restraints are applied with staff in meeting on 8/25/06. Also, monitoring physician initial order has been added to the audit form.

<u>Responsible:</u> Nurse Manager, Nursing Staff

<u>Monitoring:</u> Nurse Manager will audit all restraint charts weekly for compliance with staff follow-up and corrective action.

<u>Patient #4:</u> This cannot be retrospectively corrected. The nurse who was caring for the patient at the time of restraint application was not at the staff meeting mentioned above and was provided one-on-one instruction by the Nurse Manager. | | |

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

STATE FORM

8099

GW9H11

If continuation sheet 1 of 3

PRINTED: 08/11/2008
FORM APPROVED

Division of Health Care Facilities

| | | | | |
|--|---|--|---|--|
| STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION | | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:

TNP531148 | (X2) MULTIPLE CONSTRUCTION
A. BUILDING _____
B. WING _____ | (X3) DATE SURVEY COMPLETED

08/11/2006 |
| NAME OF PROVIDER OR SUPPLIER

SELECT SPECIALTY HOSPITAL-NORTH KNOX | | STREET ADDRESS, CITY, STATE, ZIP CODE
900 OAKHILL AVENUE-4TH FLOOR
KNOXVILLE, TN 37917 | | |
| (X4) ID PREFIX TAG | SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY) | (X5) COMPLETE DATE |
| H 682 | Continued From page 1

facility's Restraint and Seclusion Policy states "...3. Obtain a physician's order prior to the application of a restraint. In an emergency situation, the need for restraint may occur so quickly that an order cannot be obtained prior to application. In this situation an order must be obtained either during the emergency application or immediately after the restraint has been applied..." Interview with the Nurse Manager on August 11, 2006, at 9:45 am, confirmed no physician's order for the application of restraints was obtained. Observation on August 11, 2006, at 11:30 am, revealed the patient was lying in bed with a tracheostomy tube hooked to T-Bar oxygen tubing with bilateral soft wrist restraints secured to the bed frame with quick release ties. | H 682 | | |
| H 713 | 1200-8-1-.08 (6)(h) Basic Hospital Functions

(6) Pharmaceutical Services.

(h) Whenever patients bring drugs into an institution, such drugs shall not be administered unless they can be identified and ordered to be given by a physician.

This Statute is not met as evidenced by:
Based on observation, medical record review and interview, the facility failed to obtain a physician's order for self-administration of medications, failed to label one self-administration medication bottle with a pharmacy label, failed to assess a patient for self-administration of medications and failed to have a pharmacist counsel the patient who is self-administering medications for one (#8) of three patients reviewed for medication administration.

The findings included: | H 713 | <u>1200-8-1-.06 (6) (h)</u>

<u>Findings:</u> Observation, medical record review and interview, the facility failed to obtain a physician's order for self-administration of medications; failed to label one self-administration medication bottle with a pharmacy label, failed to assess a patient for self-administration of medications and failed to have a pharmacist counsel the patient who is self-administering medications for one patient of three patients reviewed for medication administration.

<u>POC:</u> Upon investigating the origin of the non-labeled bottle, the bottle was found to originate from the transferring hospital (St. Mary's). The Nurse Manager, in staff meetings, instructed the staff to review medications with the patient, patient's family, and physician. Document in the admission assessment any medications brought in from home or the transferring facility and instruct the family to take the medication home.

Patient's who self-administer medication will do so in accordance with policy and procedure. Staff will be re-educated on policy and procedure by August 31, 2006.

<u>Responsible:</u> Nurse Manager, Nursing staff

<u>Monitoring:</u> Weekly rounds by Charge Nurse, Nurse Manager, Monthly rounds by Quality | 8/25/06 |

Division of Health Care Facilities

STATE FORM

6899

GW9H11

If continuation sheet 2 of 3

PRINTED: 08/11/2006
FORM APPROVED

Division of Health Care Facilities

| | | | | | |
|--|---|--|--|--|---|
| STATEMENT OF DEFICIENCIES
AND PLAN OF CORRECTION | | (X1) PROVIDER/SUPPLIER/CLIA
IDENTIFICATION NUMBER:

TNP531148 | (X2) MULTIPLE CONSTRUCTION
A. BUILDING _____
B. WING _____ | | (X3) DATE SURVEY
COMPLETED

08/11/2006 |
| NAME OF PROVIDER OR SUPPLIER

SELECT SPECIALTY HOSPITAL-NORTH KNOX | | | STREET ADDRESS, CITY, STATE, ZIP CODE
800 OAK HILL AVENUE-4TH FLOOR
KNOXVILLE, TN 37917 | | |
| (X4) ID
PREFIX
TAG | SUMMARY STATEMENT OF DEFICIENCIES
(EACH DEFICIENCY MUST BE PRECEDED BY FULL
REGULATORY OR LSC IDENTIFYING INFORMATION) | ID
PREFIX
TAG | PROVIDER'S PLAN OF CORRECTION
(EACH CORRECTIVE ACTION SHOULD BE
CROSS-REFERENCED TO THE APPROPRIATE
DEFICIENCY) | | (X5)
COMPLETE
DATE |
| H 713 | Continued From page 2

Patient # 8 was admitted to the facility on July 27, 2006, with admission diagnoses including Respiratory Failure, Pelvic Fracture and Pneumonia. Observation on August 11, 2006, at 11:10 am, revealed the following medications lying on the patient's over-bed table: a nasal spray prescription bottle dispensed on July 28, 2006, labeled Flunisolide 0.25 % 2 sprays every day (Flunisolide/Flonase); a 45 ml nasal prescription bottle dispensed on July 28, 2006, labeled Sodium Chloride 0.65 % Spray Solution 2 sprays; and a 16 gm nasal spray bottle of Fluticasone Propionate 50 mcg with no instructions or pharmacy label (Fluticasone Propionate/Flovent). Medical record review revealed the following physician's orders dated July 27, 2006: Flonase 2 sprays each nostril every day and Nasal Saline 2 sprays every 4 hours while awake. Medical record review revealed no physician's order for self-administration of medications, no assessment for self-administration of medication, and no pharmacist's instructions for self-administration of medications. Interview with the Registered Nurse on August 11, 2006, at 11:20 am, confirmed the patient self-administers the nasal spray because is an "as needed medication". Interview with the Pharmacist on August 11, 2006, at 11:25 am, revealed no patients in the facility self-administer medications. Interview with the Quality Manager on August 11, 2006, at 11:30 am, confirmed all medications bottles should have a pharmacy label, the patient was not assessed to self-administer medications, there is no physician's order for self-administration of medications and there are no pharmacist's instruction on how to self-administer medications. | H713 | 1200-8-1-06 (6) (h)

<u>Patient #8:</u> The medications were removed from the bedside. Investigation began on the non-labeled bottle. It was found that the bottle was not dispensed by Select and was transferred with patient from St. Mary's Hospital. The wife was instructed to take the medication home. | | 8/11/06 |

Division of Health Care Facilities
STATE FORM

8399

GW9H11

If continuation sheet 3 of 3

PKINTEL: 07/19/2006
FORM APPROVED

Division of Health Care Facilities

| | | | | | |
|--|---|---|---|--|---|
| STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION | | (X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER:

TNP531148 | (X2) MULTIPLE CONSTRUCTION
A. BUILDING 01 - MAIN
B. WING _____ | | (X3) DATE SURVEY COMPLETED

R
07/19/2006 |
| NAME OF PROVIDER OR SUPPLIER

SELECT SPECIALTY HOSPITAL-NORTH KNOX | | STREET ADDRESS, CITY, STATE, ZIP CODE
900 OAK HILL AVENUE-4TH FLOOR
KNOXVILLE, TN 37917 | | | |
| (X4) ID PREFIX TAG | SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION) | ID PREFIX TAG | PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY) | | (X5) COMPLETE DATE |
| {H 871} | 1200-8-1-.08 (1) Building Standards

(1) The hospital must be constructed, arranged, and maintained to ensure the safety of the patient.

This Statute is not met as evidenced by:
Based on observation, the facility continued to fail in assuring the means of egress was continuously maintained free from obstruction or impediments to full instant use in case of fire or other emergency (NFPA 101, 7.1.10.1).

The findings include:

Observation on May 31, 2006, between 9:30 a.m. to 11:00 a.m., revealed the corridor was obstructed with the following: one scale, two lift chair/devices, two wheelchairs, one chair, one beige cart, one grey cart, two linen carts, one IV pole, two blood pressure stations, one bed, and two housekeeping carts.

Observation on July 19, 2006, between 7:30 a.m. and 8:45 a.m., revealed the corridor was obstructed with the following: two scales, three lift chair/devices, one wheelchair, one patient lift, one small linen cart, one grey cart, four blood pressure/vital sign stations, and one housekeeping cart. | EL871 | 1200-8-1-.08 (1)

<u>Findings:</u> Observation on July 19, 2006 between 7:30 am and 8:45 am, revealed the corridor was obstructed with the following: two scales, three lift chair/devices, one wheelchair, one patient lift, one small linen cart, one grey cart, four blood pressure/vital sign stations, and one housekeeping cart.

<u>POC:</u> A patient room 453 & 454 was converted to a storage room. The lift chairs, BP machines, wheelchairs, scales etc. are kept in this room. Only yellow isolation carts for patients are kept outside of the patient's room. The Nurse Manager informed staff where equipment is to be stored.

<u>Monitoring:</u> Daily Charge Nurse rounds, Monthly Safety and Quality Rounds | | 7/18/06-7/22/06 |
| {H 893} | 1200-8-1-.08 (23) Building Standards.

(23) A negative air pressure shall be maintained in the soiled utility area, toilet room, janitor's closet, dishwashing and other such soiled spaces, and a positive air pressure shall be maintained in all clean areas including, but not limited to, clean linen rooms and clean utility rooms. | {H 893} | | | |

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

STATE FORM

6858

02N222

If continuation sheet 1 of 2

PRINTED: 07/19/2006
FORM APPROVED

Division of Health Care Facilities

| | | | | |
|--|---|---|--|--|
| STATEMENT OF DEFICIENCIES
AND PLAN OF CORRECTION | | (X1) PROVIDER/SUPPLIER/CLIA
IDENTIFICATION NUMBER:

TNP531148 | (X2) MULTIPLE CONSTRUCTION
A. BUILDING 01 - MAIN
B. WING _____ | (X3) DATE SURVEY
COMPLETED

R
07/19/2006 |
| NAME OF PROVIDER OR SUPPLIER

SELECT SPECIALTY HOSPITAL-NORTH KNOX | | STREET ADDRESS, CITY, STATE, ZIP CODE
900 OAK HILL AVENUE-4TH FLOOR
KNOXVILLE, TN 37917 | | |
| (X4) ID
PREFIX
TAG | SUMMARY STATEMENT OF DEFICIENCIES
(EACH DEFICIENCY MUST BE PRECEDED BY FULL
REGULATORY OR LSC IDENTIFYING INFORMATION) | ID
PREFIX
TAG | PROVIDER'S PLAN OF CORRECTION
(EACH CORRECTIVE ACTION SHOULD BE
CROSS-REFERENCED TO THE APPROPRIATE
DEFICIENCY) | (X5)
COMPLETE
DATE |
| {H 893} | Continued From page 1 | {H 893} | 1200-8-1-.08 (23) Building Standards | |
| | <p>This Statute is not met as evidenced by:
Based on observation, the facility continued to fail in maintaining positive air pressure in a clean utility room.</p> <p>The findings include:</p> <p>Observation on May 31, 2006, at 9:55 a.m., revealed the clean equipment room was not provided with an air supply to maintain positive air pressure.</p> <p>Observation on July 19, 2006, at 8:30 a.m., revealed the clean equipment room/clean linen room was not provided with an air supply to maintain positive air pressure.</p> | H 893 | <p><u>Findings:</u> Observation on July 19, 2006 at 08:30 am, revealed the clean equipment room/clean linen room was not provided with an air supply to maintain positive pressure.</p> <p><u>POC:</u> The dirty linen room was terminally cleaned due to this room having positive pressure. This room is designated for the Clean linen-cart. Worked with host to ensure positive pressure is being maintained in this room. Nurse Manager reviewed with staff the room change and the need to maintain as designated.</p> <p><u>Monitoring:</u> This room is permanently designated as the clean linen room. Daily monitoring by Charge Nurse to ensure this room is maintained as designated</p> | 7/18/06-
7/22/06 |

Division of Health Care Facilities
STATE FORM

5609

02NZ22

If continuation sheet 2 of 2

| | | | | |
|--|---------------------------------|---|---------------------------------|-------------------------------|
| POST-LICENSURE REVISIT REPORT | | LICENSE NUMBER | DATE OF REVISIT
8/24/06 | |
| NAME OF FACILITY
Select Specialty Hosp. - Northway | | STREET ADDRESS, CITY, STATE, ZIP CODE
900 Oak Hill Ave.
Knoxville, TN 37917 | | |
| <p>This report is completed by a qualified State surveyor for the Tennessee Licensure programs, to show those deficiencies previously reported on the Licensure Statement of Deficiencies and Plan of Correction, that have been corrected and the date such corrective action was accomplished. Each deficiency should be fully identified using the regulation number previously shown on the Licensure Statement of Deficiencies and Plan of Correction Form. If all deficiencies are not corrected, the surveyor should check the block at the bottom right of this form indicating the need for the completion of the Licensure-E, Summary of Deficiencies Not Corrected.</p> | | | | |
| ITEM | DATE | ITEM | DATE | ITEM |
| 1200-8-1-06(4)(k)
H682 | Correction Completed
8/25/06 | 1200-8-1-06(h)
H713 | Correction Completed
8/25/06 | 1200-
Correction Completed |
| 1200-
Correction Completed | 1200-
Correction Completed | 1200-
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| REVIEWED BY
STATE AGENCY | REVIEWED BY:
(INITIALS) | DATE | SIGNATURE OF STATE SURVEYOR | DATE |
| | | 8/24/06 | PO Rami | 8/24/06 |
| FOLLOWUP TO SURVEY COMPLETED ON
8/11/06 | | TITLE
PAC # 2 | | |

Form Licensure-B
PH-0151
MCF 5/88

☐ SEE ATTACHED LICENSURE FORM FOR
ANY UNCORRECTED DEFICIENCIES

Page ____ of ____

| | | |
|--|--|----------------------------|
| POST-LICENSURE REVISIT REPORT | LICENSE NUMBER
531148 | DATE OF REVISIT
8/24/06 |
| NAME OF FACILITY
Select Specialty Hospital - North Knox | STREET ADDRESS, CITY, STATE, ZIP CODE
900 Oak Hill Avenue - 4th Floor
Knoxville TN 37917 | |

This report is completed by a qualified State surveyor for the Tennessee Licensure programs, to show those deficiencies previously reported on the Licensure Statement of Deficiencies and Plan of Correction, that have been corrected and the date such corrective action was accomplished. Each deficiency should be fully identified using the regulation number previously shown on the Licensure Statement of Deficiencies and Plan of Correction Form. If all deficiencies are not corrected, the surveyor should check the block at the bottom right of this form indicating the need for the completion of the Licensure-E, Summary of Deficiencies Not Corrected.

| ITEM | DATE | ITEM | DATE | ITEM | DATE |
|---------------------------------|---------------------------------|----------------------------------|---------------------------------|------------|-----------------------------|
| 1200- <u>8-1-08(1)</u>
H 871 | Correction Completed
7/22/06 | 1200- <u>8-1-08(23)</u>
H 893 | Correction Completed
7/22/06 | 1200-_____ | Correction Completed
/ / |
| 1200-_____ | Correction Completed
/ / | 1200-_____ | Correction Completed
/ / | 1200-_____ | Correction Completed
/ / |
| 1200-_____ | Correction Completed
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/ / | 1200-_____ | Correction Completed
/ / |

| | | | | |
|-----------------------------|-----------------------------------|-----------------|--|-----------------|
| REVIEWED BY
STATE AGENCY | REVIEWED BY:
(INITIALS)
RNB | DATE
8/29/06 | SIGNATURE OF STATE SURVEYOR
Karen Barkley | DATE
8/24/06 |
|-----------------------------|-----------------------------------|-----------------|--|-----------------|

| | |
|--|---------------------------------|
| FOLLOWUP TO SURVEY COMPLETED ON
7/19/06 | TITLE
Fire Safety Specialist |
|--|---------------------------------|

Form Licensure-B
PH-0151
HCF 5/88

☐ SEE ATTACHED LICENSURE FORM FOR
ANY UNCORRECTED DEFICIENCIES

Page ____ of ____

Miscellaneous Information

Midmonth Report for July 2013

- * This report is a count of people taken in the middle of the month for which the report was run.
- * This report is run three months after the month of the report in an effort to reduce fluctuations in the results.

| MCO | REGION | Total |
|---------------------------------|------------------|------------------|
| Awaiting MCO assignment | | 307 |
| AMERIGROUP COMMUNITY CARE | Middle Tennessee | 195,036 |
| BLUECARE | East Tennessee | 211,451 |
| BLUECARE | West Tennessee | 175,903 |
| TENNCARE SELECT | All | 45,559 |
| UnitedHealthcare Community Plan | East Tennessee | 194,264 |
| | Middle Tennessee | 198,106 |
| | West Tennessee | 173,095 |
| Grand Total | | 1,193,721 |

| COUNTY | Female | | | | | Female
Total | Male | | | | | Male Total | Grand Total |
|------------|--------|---------|---------|--------|--------|-----------------|--------|---------|---------|--------|---------|------------|-------------|
| | Female | | | | | | Male | | | | | | |
| | 0 - 18 | 19 - 20 | 21 - 64 | 65 --> | Total | | 0 - 18 | 19 - 20 | 21 - 64 | 65 --> | Total | | |
| ANDERSON | 3,770 | 286 | 3,257 | 605 | 7,918 | 3,931 | 214 | 1,565 | 271 | 5,981 | 13,899 | | |
| BEDFORD | 3,332 | 226 | 2,226 | 266 | 6,050 | 3,437 | 127 | 948 | 108 | 4,618 | 10,668 | | |
| BENTON | 920 | 86 | 794 | 148 | 1,948 | 1,021 | 44 | 442 | 73 | 1,580 | 3,528 | | |
| BLEDSE | 721 | 61 | 620 | 124 | 1,527 | 834 | 46 | 359 | 54 | 1,293 | 2,820 | | |
| BLOUNT | 5,217 | 411 | 4,392 | 664 | 10,683 | 5,274 | 293 | 1,993 | 294 | 7,854 | 18,538 | | |
| BRADLEY | 4,884 | 407 | 4,319 | 634 | 10,244 | 5,267 | 246 | 1,918 | 266 | 7,697 | 17,942 | | |
| CAMPBELL | 2,695 | 242 | 3,045 | 652 | 6,635 | 2,765 | 181 | 1,689 | 362 | 4,998 | 11,633 | | |
| CANNON | 680 | 52 | 633 | 126 | 1,491 | 756 | 35 | 293 | 53 | 1,136 | 2,627 | | |
| CARROLL | 1,649 | 164 | 1,584 | 329 | 3,726 | 1,843 | 116 | 820 | 145 | 2,925 | 6,651 | | |
| CARTER | 2,931 | 220 | 2,575 | 704 | 6,430 | 3,072 | 174 | 1,335 | 250 | 4,832 | 11,262 | | |
| CHEATHAM | 1,773 | 135 | 1,389 | 183 | 3,480 | 1,828 | 107 | 662 | 77 | 2,674 | 6,154 | | |
| CHESTER | 936 | 86 | 796 | 150 | 1,968 | 959 | 62 | 349 | 64 | 1,434 | 3,403 | | |
| CLAIBORNE | 1,816 | 158 | 1,858 | 537 | 4,369 | 1,912 | 113 | 1,171 | 249 | 3,445 | 7,814 | | |
| CLAY | 498 | 35 | 405 | 105 | 1,044 | 488 | 26 | 275 | 75 | 864 | 1,908 | | |
| COCKE | 2,569 | 216 | 2,362 | 449 | 5,596 | 2,611 | 156 | 1,342 | 227 | 4,336 | 9,932 | | |
| COFFEE | 3,142 | 204 | 2,683 | 386 | 6,416 | 3,187 | 131 | 1,168 | 164 | 4,649 | 11,065 | | |
| CROCKETT | 983 | 75 | 728 | 211 | 1,998 | 933 | 52 | 347 | 75 | 1,407 | 3,405 | | |
| CUMBERLAND | 2,812 | 214 | 2,278 | 500 | 5,804 | 2,980 | 154 | 1,194 | 214 | 4,541 | 10,346 | | |
| DAVIDSON | 36,133 | 2,348 | 27,066 | 3,180 | 68,727 | 37,171 | 1,760 | 10,172 | 1,474 | 50,577 | 119,305 | | |
| DECATUR | 561 | 61 | 519 | 195 | 1,336 | 659 | 29 | 311 | 75 | 1,074 | 2,410 | | |
| DEKALB | 1,181 | 68 | 1,006 | 191 | 2,446 | 1,245 | 61 | 531 | 96 | 1,934 | 4,380 | | |
| DICKSON | 2,523 | 152 | 2,142 | 307 | 5,124 | 2,678 | 119 | 866 | 112 | 3,774 | 8,899 | | |
| DYER | 2,511 | 241 | 2,215 | 429 | 5,395 | 2,584 | 165 | 957 | 153 | 3,859 | 9,255 | | |
| FAYETTE | 1,546 | 132 | 1,173 | 298 | 3,150 | 1,697 | 92 | 536 | 128 | 2,454 | 5,604 | | |
| FENTRESS | 1,241 | 120 | 1,236 | 382 | 2,979 | 1,358 | 93 | 799 | 182 | 2,431 | 5,411 | | |
| FRANKLIN | 1,723 | 156 | 1,511 | 266 | 3,656 | 1,773 | 105 | 683 | 110 | 2,671 | 6,327 | | |
| GIBSON | 2,911 | 254 | 2,684 | 616 | 6,464 | 3,079 | 205 | 1,194 | 255 | 4,732 | 11,196 | | |
| GILES | 1,410 | 125 | 1,229 | 247 | 3,011 | 1,413 | 90 | 588 | 103 | 2,193 | 5,204 | | |
| GRAINGER | 1,292 | 102 | 1,085 | 288 | 2,766 | 1,290 | 72 | 684 | 152 | 2,198 | 4,964 | | |
| GREENE | 3,197 | 236 | 3,060 | 725 | 7,218 | 3,323 | 145 | 1,648 | 360 | 5,476 | 12,695 | | |

| | | | | | | | | | | | |
|-------------|--------|-------|--------|-------|---------|--------|-------|--------|-------|--------|---------|
| GRUNDY | 1,054 | 99 | 1,040 | 226 | 2,419 | 1,153 | 69 | 598 | 137 | 1,958 | 4,377 |
| HAMBLÉN | 4,004 | 241 | 2,739 | 537 | 7,522 | 4,038 | 150 | 1,228 | 224 | 5,639 | 13,161 |
| HAMILTON | 15,275 | 1,141 | 13,220 | 2,226 | 31,862 | 15,925 | 780 | 5,303 | 859 | 22,866 | 54,728 |
| HANCOCK | 476 | 50 | 518 | 165 | 1,208 | 540 | 42 | 303 | 78 | 962 | 2,170 |
| HARDEMAN | 1,609 | 134 | 1,491 | 339 | 3,573 | 1,590 | 83 | 742 | 158 | 2,573 | 6,146 |
| HARDIN | 1,583 | 131 | 1,463 | 394 | 3,570 | 1,590 | 108 | 801 | 197 | 2,697 | 6,267 |
| HAWKINS | 3,008 | 271 | 2,787 | 561 | 6,627 | 3,161 | 169 | 1,421 | 255 | 5,005 | 11,632 |
| HAYWOOD | 1,412 | 126 | 1,330 | 295 | 3,163 | 1,476 | 99 | 432 | 106 | 2,113 | 5,276 |
| HENDERSON | 1,636 | 133 | 1,471 | 272 | 3,512 | 1,694 | 87 | 645 | 99 | 2,525 | 6,036 |
| HENRY | 1,909 | 154 | 1,599 | 282 | 3,944 | 1,990 | 134 | 755 | 117 | 2,996 | 6,940 |
| HICKMAN | 1,351 | 133 | 1,191 | 188 | 2,863 | 1,486 | 107 | 645 | 81 | 2,319 | 5,182 |
| HOUSTON | 407 | 28 | 370 | 108 | 913 | 461 | 24 | 198 | 70 | 754 | 1,667 |
| HUMPHREYS | 947 | 84 | 806 | 159 | 1,997 | 1,012 | 41 | 388 | 68 | 1,508 | 3,505 |
| JACKSON | 623 | 44 | 595 | 147 | 1,409 | 657 | 28 | 344 | 93 | 1,121 | 2,531 |
| JEFFERSON | 2,769 | 189 | 2,149 | 496 | 5,603 | 2,904 | 128 | 1,104 | 203 | 4,339 | 9,942 |
| JOHNSON | 938 | 89 | 864 | 295 | 2,186 | 964 | 53 | 562 | 154 | 1,734 | 3,920 |
| KNOX | 17,337 | 1,221 | 15,400 | 2,372 | 36,329 | 18,023 | 833 | 6,594 | 979 | 26,429 | 62,758 |
| LAKE | 409 | 45 | 507 | 156 | 1,117 | 507 | 34 | 217 | 71 | 830 | 1,947 |
| LAUDERDALE | 1,905 | 151 | 1,745 | 314 | 4,115 | 1,943 | 119 | 711 | 121 | 2,894 | 7,009 |
| LAWRENCE | 2,262 | 197 | 1,908 | 416 | 4,782 | 2,494 | 144 | 888 | 167 | 3,693 | 8,475 |
| LEWIS | 700 | 70 | 573 | 119 | 1,462 | 737 | 51 | 252 | 57 | 1,097 | 2,559 |
| LINCOLN | 1,716 | 151 | 1,362 | 296 | 3,525 | 1,844 | 106 | 683 | 114 | 2,747 | 6,272 |
| LOUDON | 2,074 | 131 | 1,478 | 279 | 3,962 | 2,113 | 95 | 691 | 118 | 3,017 | 6,980 |
| MACON | 1,625 | 131 | 1,307 | 250 | 3,313 | 1,700 | 79 | 689 | 111 | 2,579 | 5,892 |
| MADISON | 5,882 | 479 | 5,350 | 831 | 12,542 | 5,876 | 316 | 1,865 | 328 | 8,385 | 20,927 |
| MARION | 1,638 | 157 | 1,568 | 251 | 3,614 | 1,661 | 101 | 667 | 134 | 2,563 | 6,177 |
| MARSHALL | 1,582 | 115 | 1,263 | 170 | 3,130 | 1,649 | 78 | 540 | 73 | 2,340 | 5,470 |
| MAURY | 4,155 | 284 | 3,398 | 557 | 8,394 | 4,474 | 207 | 1,314 | 181 | 6,175 | 14,569 |
| MCMINN | 2,809 | 216 | 2,433 | 515 | 5,973 | 2,888 | 144 | 1,108 | 221 | 4,362 | 10,334 |
| MCNAIRY | 1,691 | 149 | 1,630 | 390 | 3,860 | 1,760 | 116 | 898 | 191 | 2,966 | 6,826 |
| MEIGS | 712 | 52 | 603 | 87 | 1,454 | 728 | 53 | 326 | 44 | 1,151 | 2,606 |
| MONROE | 2,520 | 226 | 2,239 | 507 | 5,492 | 2,812 | 129 | 1,193 | 261 | 4,395 | 9,886 |
| MONTGOMERY | 6,938 | 530 | 5,612 | 653 | 13,732 | 7,149 | 307 | 1,810 | 208 | 9,475 | 23,206 |
| MOORE | 218 | 20 | 153 | 44 | 435 | 257 | 9 | 89 | 17 | 372 | 807 |
| MORGAN | 1,161 | 78 | 908 | 187 | 2,334 | 1,207 | 61 | 509 | 112 | 1,889 | 4,223 |
| OBION | 1,756 | 138 | 1,587 | 297 | 3,778 | 1,876 | 87 | 606 | 110 | 2,678 | 6,456 |
| OVERTON | 1,134 | 90 | 947 | 269 | 2,441 | 1,226 | 74 | 541 | 140 | 1,981 | 4,421 |
| PERRY | 509 | 33 | 381 | 85 | 1,009 | 527 | 30 | 228 | 44 | 829 | 1,838 |
| PICKETT | 230 | 20 | 206 | 87 | 543 | 281 | 10 | 131 | 44 | 466 | 1,009 |
| POLK | 895 | 52 | 830 | 157 | 1,934 | 976 | 56 | 441 | 68 | 1,541 | 3,475 |
| PUTNAM | 3,721 | 356 | 3,179 | 753 | 8,009 | 3,868 | 223 | 1,687 | 314 | 6,093 | 14,102 |
| RHEA | 2,202 | 155 | 1,772 | 326 | 4,455 | 2,237 | 120 | 843 | 126 | 3,326 | 7,782 |
| ROANE | 2,319 | 205 | 2,333 | 530 | 5,387 | 2,625 | 123 | 1,284 | 224 | 4,255 | 9,642 |
| ROBERTSON | 3,373 | 174 | 2,273 | 366 | 6,186 | 3,552 | 133 | 894 | 164 | 4,744 | 10,930 |
| RUTHERFORD | 11,201 | 890 | 7,830 | 958 | 20,878 | 11,602 | 530 | 2,790 | 382 | 15,304 | 36,182 |
| SCOTT | 1,777 | 141 | 1,677 | 398 | 3,994 | 1,833 | 110 | 936 | 191 | 3,069 | 7,063 |
| SEQUIATCHIE | 909 | 82 | 763 | 149 | 1,904 | 941 | 54 | 417 | 58 | 1,470 | 3,373 |
| SEVIER | 4,593 | 330 | 3,090 | 458 | 8,471 | 4,984 | 168 | 1,249 | 164 | 6,564 | 15,035 |
| SHELBY | 68,080 | 5,779 | 54,837 | 6,583 | 135,280 | 69,588 | 4,143 | 16,143 | 2,496 | 92,370 | 227,649 |
| SMITH | 1,018 | 75 | 865 | 174 | 2,130 | 1,017 | 47 | 406 | 64 | 1,534 | 3,665 |
| STEWART | 638 | 42 | 615 | 113 | 1,409 | 684 | 31 | 294 | 56 | 1,065 | 2,473 |

| | | | | | | | | | | | |
|--------------------|----------------|---------------|----------------|---------------|----------------|----------------|---------------|----------------|---------------|----------------|------------------|
| SULLIVAN | 6,986 | 580 | 6,647 | 1,336 | 15,549 | 7,429 | 404 | 3,344 | 586 | 11,764 | 27,313 |
| SUMNER | 6,641 | 510 | 5,296 | 784 | 13,232 | 7,015 | 374 | 2,020 | 307 | 9,715 | 22,947 |
| TIPTON | 3,382 | 295 | 2,634 | 362 | 6,673 | 3,545 | 196 | 949 | 148 | 4,838 | 11,511 |
| TROUSDALE | 492 | 26 | 388 | 83 | 989 | 439 | 37 | 194 | 36 | 706 | 1,695 |
| UNICOI | 876 | 50 | 785 | 274 | 1,985 | 980 | 43 | 369 | 130 | 1,521 | 3,505 |
| UNION | 1,304 | 90 | 921 | 158 | 2,473 | 1,295 | 63 | 522 | 83 | 1,963 | 4,436 |
| VAN BUREN | 278 | 25 | 269 | 61 | 633 | 308 | 11 | 152 | 44 | 515 | 1,148 |
| WARREN | 2,553 | 178 | 2,101 | 430 | 5,261 | 2,644 | 142 | 1,036 | 184 | 4,006 | 9,267 |
| WASHINGTON | 4,866 | 408 | 4,779 | 966 | 11,019 | 5,079 | 282 | 2,231 | 392 | 7,985 | 19,004 |
| WAYNE | 734 | 56 | 632 | 173 | 1,595 | 797 | 44 | 332 | 71 | 1,245 | 2,839 |
| WEAKLEY | 1,658 | 215 | 1,489 | 322 | 3,684 | 1,709 | 117 | 713 | 110 | 2,649 | 6,333 |
| WHITE | 1,545 | 127 | 1,342 | 333 | 3,347 | 1,672 | 101 | 755 | 118 | 2,647 | 5,994 |
| WILLIAMSON | 2,561 | 159 | 1,679 | 341 | 4,740 | 2,701 | 111 | 676 | 117 | 3,605 | 8,345 |
| WILSON | 4,226 | 326 | 3,420 | 498 | 8,470 | 4,409 | 189 | 1,400 | 178 | 6,176 | 14,646 |
| Grand Total | 336,351 | 26,327 | 279,504 | 46,809 | 688,991 | 349,669 | 18,347 | 116,937 | 19,776 | 504,730 | 1,193,721 |

SUPPORT LETTERS

AFFIDAVITSTATE OF TENNESSEECOUNTY OF DAVIDSON

JOHN WELLBORN, being first duly sworn, says that he is the lawful agent of the applicant named in this application, that this project will be completed in accordance with the application to the best of the agent's knowledge, that the agent has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of the agent's knowledge.

John Wellborn
SIGNATURE/TITLE

Sworn to and subscribed before me this 4 day of December, 2013 a Notary
(Month) (Year)

Public in and for the County/State of DAVIDSON / TENNESSEE

[Signature]
NOTARY PUBLIC

My commission expires 1-11, 2017
(Month/Day) (Year)



LETTER OF INTENT -- HEALTH SERVICES & DEVELOPMENT AGENCY

The Publication of Intent is to be published in the News Sentinel, which is a newspaper of general circulation in Knox County, Tennessee, on December 1, 2013, for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Select Specialty Hospital--North Knoxville (a long term acute care hospital), owned and managed by Select Specialty Hospital--North Knoxville, Inc. (a corporation), intends to file an application for a Certificate of Need to relocate within Knox County from its present address at 900 East Oak Hill Avenue, 4th Floor, Knoxville, TN 37917, to leased space at North Knoxville Medical Center, Physicians Plaza B, First (Middle) Floor, 7557-B Dannaher Drive, Powell, TN 37849. The proposed location is a medical office building on the campus of Tennova Healthcare--North Knoxville Medical Center. The project cost for CON purposes, which includes the value of space being leased, is estimated at \$13,910,744. Select Specialty Hospital--North Knoxville is licensed by the Board for Licensing Health Care Facilities for thirty-three (33) long term acute care beds. Its licensed bed complement will remain the same at the new location. The project does not include any major medical equipment and it will not add or discontinue any other significant health service.

The anticipated date of filing the application is on or before December 6, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 4219 Hillsboro Road, Suite 210, Nashville, TN 37215; (615) 665-2022.

John L Wellborn 12-1-13

(Signature)

(Date)

jwdsg@comcast.net
(E-mail Address)

**ORIGINAL-
Additional Info.
SUPPLEMENTAL-3**

Select Specialty Hospital

CN1312-047

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

2014 JAN 9 4:03 PM
SUPPLEMENTAL- # 3

**January 9, 2014
4:15pm**

December 30, 2013

By Hand Delivery

Mark Farber, Deputy Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

**RE: CON Application CN1312-047
Select Specialty Hospital—North Knoxville**

Dear Mr. Farber:

This letter further responds to the Agency's third request for additional information on this application and is being submitted in triplicate with the appropriate affidavits. Enclosed please find in connection with this project:

Lease Agreement dated January 2, 2014
Ground Lease Agreement dated December 12, 2007
First and Second Amendments to Ground Lease Agreement

Thank you for your assistance.

Very truly yours,



Paul W. Ambrosius
Counsel to the Applicant

PWA/kmn

LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is made this 2nd day of January 2014, (the "Effective Date") by and between CHP KNOXVILLE PLAZA B MOB OWNER, LLC, a Tennessee limited liability company ("Landlord"), and SELECT SPECIALTY HOSPITAL -- NORTH KNOXVILLE, INC., a Delaware corporation ("Tenant").

RECITALS

WHEREAS, Landlord owns a ground lease interest in certain real property (the "Land") which is improved by a certain building (the "Building") as more fully described herein, pursuant to that certain Agreement between St. Mary's Health System, Inc. ("Ground Landlord"), and Emory Development Partners, LLC, as assigned to and assumed by Metro Knoxville HMA, LLC, and CHP Knoxville Plaza B MOB Owner, LLC, as shown on Exhibit A attached hereto and incorporated herein by reference (the "Ground Lease").

WHEREAS, Tenant desires to lease a portion of the Building from Landlord and Landlord desires to lease a portion of the Building to Tenant, all in accordance with the terms of this Lease.

AGREEMENTS

In consideration of the mutual covenants herein contained and upon the terms and conditions herein set forth, the parties hereby agree as follows:

1. Premises. Landlord hereby leases to Tenant and Tenant hereby rents from Landlord, the premises designated as Suite Number 145 in the Building, as shown on Exhibit B attached hereto and incorporated herein by reference (the "Premises"), together with the right to use the common areas of the Building as well as all parking areas and other common areas. Landlord and Tenant agree that the Premises presently contains a rentable area of twenty-five thousand seven hundred one (25,701) square feet and that the Building presently contains a rentable area of seventy-five thousand one hundred nine (75,109) square feet. Rentable area has been calculated using an agreed upon core factor.

2. Term.

(a) This Lease shall be for an initial term of ten (10) years (the "Term"), beginning on the earliest to occur of: (i) the date the long term acute care hospital operated by Tenant becomes licensed and begins accepting patients, and (ii) so long as Landlord has delivered the Premises to Tenant in Delivery Condition (as defined in Section 2(d) below) by the Estimated Delivery Date, January 1, 2015 (the "Commencement Date"). Reference in this Lease to the "Term" shall include any renewal term provided for herein, unless the context plainly requires a contrary meaning. The Commencement Date may be subject to adjustment in accordance with the provisions of Section 2(d) below.

(b) The term "Lease Year" shall mean the twelve (12) month period beginning on the Commencement Date and each successive twelve (12) month period thereafter during the Term (unless the Commencement Date is on other than the first day of a month, in which case the first Lease Year shall begin on the Commencement Date and shall expire on the last day of the twelfth (12th) full month immediately following the Commencement Date).

(c) Upon the execution of this Lease by Landlord and Tenant, Landlord and Tenant shall be bound by all of the terms and conditions of this Lease.

(d) In no event later than June 1, 2014 (the "Estimated Delivery Date"), Landlord shall deliver the Premises as described on Exhibit C (the "Landlord's Work") and deliver the Premises to Tenant in vacant and broom clean conditions with Landlord's Work substantially complete (the "Delivery Condition"). If Landlord fails to deliver to Tenant the Premises in the Delivery Condition by thirty (30) calendar days following the Estimated Delivery Date, Tenant shall receive a credit against Rent equal to one day's Base Rent for each day after the Estimated Delivery Date Landlord fails to deliver the Premises as required. If Landlord has not delivered to Tenant the Premises in Delivery Condition within sixty (60) days following the Estimated Delivery Date, Tenant may terminate this Lease at any time by delivering written notice to Landlord. Notwithstanding the foregoing, if Tenant has failed to delivery evidence to Landlord of issuance of a Certificate of Need for the Premises by March 1, 2014, then the Estimated Delivery Date shall be extended one day for each day thereafter that such evidence is not provided. Further, if evidence of issuance of the Certificate of Need is not provided to Landlord by December 31, 2014, Landlord may at any time thereafter terminate this Lease until such time as evidence is provided.

(e) Tenant shall complete all improvements (the "Tenant Improvements") other than the Landlord's Work necessary for Tenant's use of the Premises. The Tenant Improvements shall be completed in accordance with Exhibit D. Landlord shall provide to Tenant a tenant improvement allowance (the "Tenant Allowance") of \$65.00 per rentable square foot (for a total Tenant Allowance of \$1,670,565). The Tenant Allowance shall be paid to Tenant as set forth on Exhibit D.

(f) Tenant shall have the right to occupy the Premises from the date on which Landlord delivers the Premises to Tenant until the Commencement Date in order to construct the Tenant Improvements and prepare for the opening of the long term acute care hospital to be operated by Tenant in the Premises. Such occupancy of the Premises prior to the Commencement Date shall not advance the expiration of the Term of this Lease. All of the terms, covenants and provisions of this Lease shall apply from the date of occupancy and possession except that no Rent shall be due.

(g) Notwithstanding anything to the contrary set forth in this Lease, the parties recognize that the Ground Landlord must agree to certain matters enabling this Lease to be effective. Accordingly, Tenant's obligations under this Lease are contingent upon receipt of an executed consent and non-disturbance agreement between Tenant, Landlord and Ground

Landlord acceptable to Tenant in its sole, but reasonable, discretion (such agreement, the "Ground Landlord Consent"). If the Ground Landlord Consent is not received within thirty (30) days following the Effective Date, Tenant may thereafter terminate this Lease at any time prior to receipt of the Ground Landlord Consent upon written notice to Landlord. Further, Landlord's obligations under this Lease are contingent upon Landlord's entering into an amendment to the Master Lease releasing the Premises from Landlord's occupancy rights (the "Master Lease Amendment"). If the Master Lease Amendment is not received within thirty (30) days following the Effective Date, then Tenant may terminate this Lease at any time prior to the receipt of the Master Lease Amendment.

(h) Notwithstanding anything to the contrary set forth in this Lease, Tenant shall have the one-time right to terminate the Lease following the ninetieth (90th) month of the Term, provided that Tenant must deliver to Landlord (i) written notice of such intent and (ii) a non-refundable "lease termination fee" in the amount of \$500,000, payable in five (5) monthly installments of \$100,000 each, payable on the first day of the eighty-fifth (85th) month of the Term and each of the next four months of the Term, provided, however, that in the event Tenant elects to terminate the Lease in accordance with this Section, Tenant shall not be obligated to pay the unamortized portion of the Tenant Allowance as provided in Section 36(c) hereof.

3. Quiet Enjoyment; Ground Lease Covenants.

(a) Tenant, upon the payment of the Rent herein reserved and upon the performance of all the terms of this Lease, shall at all times during the Term or any extension or renewal thereof peaceably and quietly enjoy the Premises without any disturbance from Landlord or anyone claiming by, through or under Landlord, but subject in all events to the terms and provisions of this Lease and of the Ground Lease, including (but not limited to) any use restrictions contained in the Ground Lease, as modified by the Ground Landlord Consent. On the Commencement Date, Tenant shall accept the Building, the Premises and all improvements thereto in their then existing condition, except as otherwise expressly set forth in this Lease.

(b) Notwithstanding anything to the contrary contained elsewhere in this Lease, Tenant acknowledges that Landlord, as tenant under the Ground Lease, may desire, from time to time, to make modifications or amendments to the Ground Lease and Tenant hereby agrees to be bound by any such modifications or amendments made hereafter to the Ground Lease, provided that such modifications or amendments do not (i) have a material adverse effect upon Tenant or Tenant's use of the Premises or (ii) amend or modify the Ground Landlord Consent in any way. Accordingly, immediately upon notice to Tenant of any such modification or amendment hereafter made to the Ground Lease, Tenant agrees that such modification or amendment shall be construed and enforced as if it had been a part of the Ground Lease prior to the execution of this Lease, so long as such modification or amendment does not (i) have a material adverse effect upon Tenant or Tenant's use of the Premises or (ii) amend or modify the Ground Landlord Consent in any way. The foregoing provisions of this paragraph shall be self-operative, but Tenant agrees, within fifteen (15) days after Landlord's written request, to provide written confirmation that Tenant is bound by any such modification or amendment specified by Landlord, to the extent set forth in this Section 3.

(c) Landlord covenants and agrees that (i) Landlord shall pay all rent reserved under the Ground Lease when due and duly perform and observe all of the obligations of Landlord as tenant under the Ground Lease, and (ii) Landlord shall not voluntarily cancel or surrender the Ground Lease or, without the prior written consent of Tenant, modify the Ground Lease in a manner that may materially and adversely impact Tenant's rights or obligations under this Lease.

(d) Landlord agrees that upon receipt of Tenant's written request, Landlord shall use reasonable efforts (a) to cause Ground Landlord to provide any service for which Ground Landlord is obligated under the Ground Lease, or (b) to obtain Ground Landlord's consent or approval whenever required by the Ground Lease. Landlord further agrees that, if under the Ground Lease any right or remedy of Landlord or any duty or obligation of Ground Landlord is subject to or conditioned upon Landlord's making any demand upon Ground Landlord or giving any notice or request to Ground Landlord then, if Tenant shall so request in writing, Landlord shall make such demand or give such notice or request, except that Landlord shall not be required to request Ground Landlord's consent or approval with respect to any act or thing as to which Landlord shall have determined in accordance with this Sublease to withhold its consent or approval.

4. Rent.

(a) Tenant covenants and agrees to pay to Landlord base rent (the "Base Rent"), in monthly installments, each due in advance and without demand on the first day of each calendar month during the Term. Tenant shall also pay and be liable for all rental, sales and use taxes or other similar taxes, if any, levied or imposed on Base Rent or Additional Rent (as defined below) payments by any city, county, state or other governmental body having authority to levy the same. Such payments shall be in addition to all other payments required to be paid to Landlord by Tenant under the terms of this Lease. Any such payment shall be paid to Landlord concurrently with the payment of the Base Rent or Additional Rent upon which such tax is based." Base Rent and any other amounts payable by Tenant to Landlord under this Lease shall be sent to Landlord at CHP KNOXVILLE PLAZA B MOB OWNER, LLC, C/O Healthcare Equity Partners, LLC, 977 Seminole Trail, PMB 344, Charlottesville, VA 22901, or to such other address as Landlord may specify in a written notice to Tenant in accordance with the provisions of Section 33 below. The first payment of Base Rent shall be due on the Commencement Date and shall include the first full monthly payment plus any pro-rated Rent for the period from the Commencement Date to the first day of the first full calendar month of the Term. Any Rents or other sums due under this Lease received by Landlord more than ten (10) days after Landlord gives Tenant written notice that the same are past due shall be subject to a late charge of three percent (3%) of the amount past due, provided, however, Landlord shall not be required to give such written notice more than one (1) time in any twelve (12) month period, and if Tenant again fails to make any such payment within ten (10) days of the date due, within twelve (12) months of any such notice, Tenant shall pay such late charge of three percent (3%) of the amount past due. Tenant covenants to pay when due and, except as expressly set forth elsewhere in this Lease, without abatement, deduction or set-off, the Base Rent provided for herein and to pay as additional rent when due all other sums, costs, charges and expenses payable

by Tenant under this Lease, including (but not limited to) all applicable sales, use or excise tax thereon now or hereafter applied to rental receipts by the state in which the Premises is located, (but expressly excluding all federal, state and local income taxes, other taxes on income or net worth, franchise taxes, margin taxes, capital, estate, succession, inheritance, value added or transfer taxes of Landlord or similar taxes or charges or substitutes therefor) and, in the event of any non-payment thereof, such sums shall be collected as Rent and Landlord shall have the rights and remedies provided for herein or by law in the case of non-payment of Rent.

(b) The Base Rent for the first Lease Year shall be Five Hundred Sixty-Four Thousand Six Hundred Fifty-One Dollars (\$564,651) per year, payable in twelve (12) consecutive, equal monthly payments of Forty-Seven Thousand Fifty-Four Dollars and Twenty-Five Cents (\$47,054.25) each. The Base Rent for each Lease Year during the Term of this Lease, beginning with the second Lease Year, shall be adjusted as follows: The Base Rent in effect during the first Lease Year, or during each Lease Year thereafter, as the case may be, shall be adjusted to equal one hundred three percent (103%) of the Base Rent in effect during the immediately preceding Lease Year.

(c) Tenant agrees to pay as "Additional Rent" its Proportionate Share (defined below) of any and all of Landlord's Expenses (defined below) which arise or accrue during each fiscal year, or part thereof, during the Term. For purposes of this Section 4(c), Tenant's Proportionate Share shall equal the ratio that the rentable area of the Premises (25,701 rsf) bears to the rentable area of the Building (75,109 rsf). The parties agree that the rentable area of the Premises comprise 34.22 percent (34.22%) of the rentable area of the Building. For purposes of this Section 4(c), the term "Landlord's Expenses" shall mean (A) any amounts paid by Landlord pursuant to the terms of the Ground Lease in connection with parking, common areas and other amenities which are available for use by Tenant under this Lease, and (B) Landlord's reasonable operating expenses to operate, maintain, manage, and repair the Building including but not limited to: (1) salaries, and other compensation paid to employees of Landlord working full or part time on the management of the Building, excluding executive personnel; (2) repairs and maintenance of the common areas of the Building that under generally accepted accounting principles consistently applied, would not be capitalized; (3) real estate and similar taxes and assessments on the Land and Building; (4) premiums and other charges incurred by Landlord for insurance on the Building, including the insurance Landlord is required to carry under this Lease plus other insurance carried by reasonably prudent operators of comparable Buildings in the metropolitan area of the Building or required to be carried by Landlord's lender or mortgagee and workers' compensation insurance; (5) costs incurred for inspection and servicing, including all outside maintenance contracts necessary or proper for the maintenance of the common areas of the Building, such as security, landscaping, snow removal, janitorial and window cleaning, rubbish removal, exterminating, elevator, electrical, plumbing, and mechanical equipment; (6) costs incurred for electricity, water, gas, fuel, or other utilities serving the common areas and serving any tenant spaces; (7) payroll taxes, federal taxes, state and local taxes, and social security taxes paid for Landlord's employees working full or part time on the management of the Building, excluding executive personnel; (8) license, permit, and inspection fees; (9) outside auditor's fees for public accounting; and (10) reasonable third party management fees not to exceed 3.5% of the gross Rents collected for the Building.

Notwithstanding any other provision of this Lease, Landlord's Expenses shall not include: (i) costs of items considered capital repairs, replacements, improvements and equipment under generally accepted accounting principles consistently applied or otherwise ("Capital Items"); (ii) rentals for items (except when needed in connection with normal repairs and maintenance of permanent systems) which if purchased, rather than rented, would constitute a Capital Item; (iii) costs incurred by Landlord for the repair of damage to the Building, to the extent that Landlord is reimbursed by insurance proceeds, and costs of all capital replacements, regardless of whether such repairs are covered by insurance and cost of earthquake repairs in excess of Twenty-five Thousand Dollars (\$25,000) per earthquake; (iv) costs, including permit, license and inspection costs, incurred with respect to the installation of tenants' or other occupants' improvements in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Building; (v) depreciation, amortization and interest payments; (vi) marketing costs including without limitation leasing commissions, attorneys' fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with present or prospective tenants or other occupants of the Building; (vii) expenses in connection with services or other benefits which are not offered to Tenant or for which Tenant is charged for directly but which are provided to another tenant or occupant of the Building; (viii) any amounts paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services supplied to or in the Building to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis for comparable buildings; (ix) interest, principal, points and fees on debts or amortization on any mortgage or mortgages or any other debt instrument encumbering the Building or the Land or Landlord's interest in the Ground Lease; (x) Landlord's general corporate overhead and general and administrative expenses; (xi) rentals and other related expenses incurred in leasing HVAC systems, elevators or other equipment ordinarily considered to be Capital Items; (xii) costs incurred in connection with painting, repairing, maintaining or replacing the roof, exterior, foundation or any other structural elements of the Building; (xiii) advertising and promotional expenditures; (xiv) the cost of any electric power used by any tenant in the Building in excess of the Building standard amount, or electric power costs for which any tenant directly contracts with the local public service company or of which any tenant is separately metered or sub-metered and pays Landlord directly; (xv) costs incurred in connection with upgrading the Building and/or parking areas to comply with the current interpretation of disability, life, fire and safety codes, ordinances, statutes, or other laws, including, without limitation, the Americans with Disabilities Act, and including penalties or damages incurred due to such non-compliance; (xvi) tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments and/or to file any tax or informational returns when due; (xvii) costs (A) for which Landlord has been compensated by a management fee, (B) for any management fees in excess of three and one half percent (3.5%) of gross rents for the Building (in computing such management fees, all amounts claimed under paragraphs (1) and (10) above will not be added to the fees and expenses of third party managers for purposes of determining whether three and one half percent (3.5%) of gross rents collected for the Building is exceeded); (xviii) costs arising from the negligence or fault of other tenants; (xix) costs arising from the release of hazardous materials or substances in or about

the Building or the Land in violation of applicable law including, without limitation, hazardous substances in the ground water or soil, not placed in the Premises, the Building or the Land by Tenant; (xx) costs arising during the contractual warranty period from construction defects in the base, shell or core of the Building or improvements installed by Landlord; (xxi) costs for sculpture, paintings or other objects of art; (xxii) costs (including in connection therewith all attorneys' fees and costs of settlement judgments and payments in lieu thereof) arising from claims, disputes or potential disputes in connection with potential or actual claims, litigation or arbitration pertaining to any tenants, the Landlord, the Building or the Land; (xxiii) costs associated with the operation of the business of the limited liability company or entity which constitutes Landlord as the same are distinguished from the costs of operation of the Building, including entity accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of Tenant may be in issue), costs (including attorney's fees) of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Building or the Ground Lease; (xxiv) costs of any disputes between Landlord and its employees (if any), disputes of Landlord with Building management, or fees paid in connection with disputes with other tenants; (xxv) costs of any "tap fees" or any sewer or water connection fees for the benefit of any particular tenant in the Building; (xxvi) any costs incurred by Landlord for use of any portions of the Building to accommodate events including, but not limited to shows, promotions, kiosks, displays, filming, photography, private events or parties, ceremonies and advertising beyond the normal expenses otherwise attributable to providing Building services, such as lighting and HVAC to such public portions of the Building in normal operations during standard Building hours of operation; (xxvii) any entertainment, dining or travel expenses of Landlord for any purpose; (xxvii) any "validated" parking for any entity; (xxviii) any "finder's fees," brokerage commissions, job placement costs or job advertising cost; (xxix) any "above-standard" cleaning, including, but not limited to construction cleanup or special cleanings associated with parties/events and specific tenant requirements in excess of service provided to Tenant, including related trash collection, removal, hauling and dumping; (xxx) costs occasioned by casualty or condemnation; (xxxi) depreciation; (xxxii) costs incurred in connection with supplying goods or services to one or more tenants but not to Tenant; (xxxiii) costs for goods or services that Tenant pays for directly to Landlord or to third parties but that Landlord supplies to other tenants of the Building (e.g., janitorial, if Tenant provides its own janitorial); (xxxiv) fines or penalties of any nature; (xxxv) costs resulting from the negligence or misconduct of Landlord or its management company, or its or their agents, servants, employees or contractors; (xxxvi) utilities and other expenses paid by any other tenant or occupant of the Building; (xxxvii) salaries, wages and benefits and payroll or wage taxes of any employee of Landlord over the grade of Building manager; (xxxviii) costs to correct any defaults in the initial construction of the Building; (xxxix) Landlord's income taxes, excess profit taxes, franchise taxes or similar taxes; and (xl) any other expenses which, in accordance with generally accepted accounting principles, consistently applied, would not normally be treated as operating expenses by comparable landlords of comparable buildings.

(d) Prior to the commencement of each calendar year, or as soon thereafter as possible, Landlord shall furnish to Tenant a statement containing Landlord's reasonable estimate of Landlord's Expenses for such year and a calculation of Tenant's Proportionate Share thereof. Thereafter, Tenant shall pay to Landlord one-twelfth of the amount of its Proportionate Share on

each monthly Base Rent payment date until further adjustment pursuant to this paragraph. Following each year, Landlord shall furnish to Tenant a statement showing the actual Landlord's Expenses during the previous year, and Landlord shall compute any charge or credit to Tenant necessary to adjust Rent previously paid by Tenant to reflect the actual Landlord's Expenses. If such statement reveals an underpayment, Tenant shall pay Landlord such underpayment within thirty (30) days of its receipt of such statement (whether or not this Lease has expired or been terminated). If such statement reveals an overpayment, Landlord shall credit the next monthly rental payment of Tenant in an amount equal to such overpayment, or, if the Term has expired, refund the overpayment to Tenant at the time Landlord send such statement. Payments due under this Section 4(c) shall be pro-rated for any fiscal year which falls outside the term of this Lease. The provisions of this Section 4(c) shall survive the expiration or earlier termination of this Lease.

(e) Tenant shall have the right to audit Landlord's books and records with respect to Landlord's Expenses for the prior calendar year, at Tenant's sole cost and expense except as expressly set forth herein. If Tenant elects to audit the books and records for any calendar year, Tenant shall provide Landlord with notice of such intent within one hundred eighty (180) calendar days following the end of the year to be audited, and commence such audit within one hundred twenty (120) days; provided that any failure to provide notice or commence the audit within such designated time periods shall be deemed a waiver of Tenant's audit rights with respect to the applicable year. Tenant shall give Landlord at least 30 days' notice prior to arrival of the auditors. Such audit may cover any period during the calendar year. If such audit reveals that for such calendar year the amounts paid by Tenant on account of Landlord's Expenses exceeded the sum which Tenant should have paid, Landlord shall credit such excess payments against Tenant's next monthly payment due in accordance with the terms of this Lease, or, if this Lease has expired, Landlord shall promptly refund such excess payment to Tenant. Additionally, if such audit reveals that for such calendar year the amounts paid by Tenant on account of Landlord's Expenses exceeded by more than 7% the sum which Tenant should have paid, then (i) Landlord shall promptly pay Tenant for the reasonable cost of such audit upon presentation of an invoice therefor, and (ii) Tenant shall have the right to audit Landlord's books and records for any other periods of the Term, pursuant to the terms of this Section 4(e).

Landlord's reasonable estimate of Tenant's Proportionate Share of Landlord's Expenses as of the Commencement Date shall be One Hundred Sixty Thousand Six Hundred Thirty-One Dollars (\$160,631) per year, payable in monthly installments of Thirteen Thousand Three Hundred Eighty-Six Dollars (\$13,386), subject to adjustment as set forth above.

5. First Month's Rent. The first month's Base Rent and Additional Rent (collectively "Rent") in the amount of Sixty Thousand Four Hundred Forty Dollars and Twenty-Five Cents (\$60,440.25), representing Base Rent of Forty-Seven Thousand Fifty-Four Dollars and Twenty-Five Cents (\$47,054.25) plus Additional Rent consisting of Landlord's reasonable estimate of Tenant's Proportionate Share of Landlord's Expenses in the amount of Thirteen Thousand Three Hundred Eighty-Six Dollars (\$13,386) shall be paid on the Commencement Date.

6. Building Services. Landlord shall, without interruption, furnish the following services twenty-four hours a day, seven days a week, in accordance with the laws and standards from time to time prevailing in the operation of medical facilities similar to Tenant's long term acute care hospital: heat and air conditioning so as to maintain the Premises in a comfortable condition; provide gas, water, sewer service, electricity and elevator service at all times; provide seven (7) day a week, twenty-four (24) hour a day access to the Premises. Tenant will contract for all other services required for the operation of a long-term acute care hospital, including (but not limited to) cleaning and janitorial services, dietary, maintenance, laundry and linen, safety and security. Landlord shall maintain elevators, building common areas, and shall generally provide, in addition, any other services and maintain and operate the Building in accordance with the standards of medical facilities similar to Tenant's long term acute care hospital located in a comparable metropolitan area. All reasonable and customary costs incurred by Landlord in connection therewith shall be deemed to be a part of Landlord's Expenses (subject to the exclusions expressly contained in Section 4(c)).

Tenant will arrange for medical waste disposal separately and at Tenant's sole expense. Tenant shall be solely responsible for and shall promptly pay all charges for telephone and other communication services. If Tenant requires or utilizes more water, gas or electric power than is reasonable or normal for a tenant in a medical office building, Landlord may reasonably determine and require Tenant to pay, as Additional Rent, the additional cost actually incurred by Landlord as a result of such additional usage.

There shall be no interruption in any building services provided by Landlord under this Section. If a service is interrupted for any reason beyond Landlord's reasonable control, and such interruption continues for more than 72 consecutive hours, Rent payable hereunder shall abate for the entire period of such interruption.

To the extent Tenant contracts with third parties to provide any of the building services for which it is responsible, or to provide services to any of its patients/residents, Tenant shall require that each such provider have liability insurance in the amounts required pursuant to Section 33(a) below and Tenant agrees to indemnify and hold Landlord harmless from and against any and all claims or causes of action arising out of the actions or inactions of any such third party service providers, which indemnification obligation shall expressly survive the termination or expiration of this Lease.

7. Prohibitions and Limitations on Use.

(a) The Premises shall continuously and at all times during the Term be used and occupied by Tenant only as a long-term acute care hospital and other related activities incidental thereto, and for no other purpose, except as expressly permitted in Section 7(c) hereof.

(b) Tenant shall not do or permit anything to be done upon the Premises or any part thereof, which would:

- (i) impair or interfere with any services for the proper and economic heating, cleaning, air-conditioning or other servicing of the Premises or the Building;
- (ii) cause material damage to the Building or any part thereof;
- (iii) constitute a public or private nuisance;
- (iv) violate any present or future laws or regulations of any governmental authority having jurisdiction over the Premises or the Building or the business being conducted therein; or
- (v) violate any term or provision of the Ground Lease.

(c) In the event of a change in the laws or regulations applicable to long-term acute care hospitals resulting in either substantial reduction or termination of Tenant's reimbursement by the Medicare program for services provided at the Premises, then Tenant may use the Premises for any healthcare-related use, provided that such use: (i) does not violate any provision of the Ground Lease; and (ii) does not unreasonably disrupt the operations of other tenants of the Building.

8. Rules and Regulations.

(a) Tenant covenants, on behalf of itself, its employees, agents, servants, contractors, licensees and invitees to comply with all reasonable rules and regulations promulgated by Landlord from time to time with respect to the Premises and the Building so long as such rules and regulations do not prevent operation of Tenant's long term acute care hospital or the provisions of required services to Tenant's patients. Except for use of the Premises for Tenant's intended use, Tenant further covenants that it shall not do, or permit anything to be done in the Premises, or bring or keep anything therein which will, in any way invalidate or conflict with any fire and casualty insurance policies on the Building, fixtures, or property kept within. The parties acknowledge that Tenant's intended use of the Premises will increase the rate of fire and casualty insurance on the Building; accordingly, Tenant agrees that it shall be responsible for paying the increase in such expense arising solely out of such use by Tenant.

(b) Tenant will actively pursue (i) accreditation of the Tenant by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"); (ii) certification as a long-term acute care hospital under the Medicare program; and (iii) issuance of all necessary federal, state and other regulatory licenses. Tenant will pay all related applications fees in connection with such accreditation, certifications and state licensure. Tenant shall pay any fine for failure to comply with the Medicare certifications and State licensure requirements except in those instances where failure is due to items covered in this Lease which are the responsibility of the Landlord. Tenant will perform all of its obligations under this Lease in accordance with applicable federal, state and local laws and regulations. Tenant will perform all acts necessary to maintain the Tenant as a long-term acute care hospital for purposes of Medicare certification and state licensure. In the event that Tenant shall fail to receive either state licensure or Medicare certification as a long-term acute care hospital within sixty (60) days of receiving an occupancy permit, then either of

Landlord or Tenant may terminate this Lease without any liability on ten (10) days written notice to the other party. Additionally, should Tenant ever lose such licensure or certification under the Medicare program by reason of a change in the laws or regulations applicable to long-term acute care hospitals, then Tenant may terminate this Lease without liability upon ten (10) days' written notice to Landlord.

(c) Tenant agrees to provide patient care to its patients in accordance with the standards for long-term acute care hospitals in the community in which the Premises is located and shall comply with the community standards for care, except for equipment and services provided by Landlord.

9. Maintenance by Tenant and Landlord. (a) Tenant agrees not to deface or commit waste upon the Premises or in the Building. The common areas in the Building shall not be obstructed by Tenant or used for any purpose other than those for which they were constructed. Subject to the provisions of Section 23 below, Tenant shall be responsible for any injury or damage of any kind or character to the Premises and all parts of the Building, including, but not limited to, the windows, floors, walls and ceilings, caused by Tenant's violations of this Section 9(a).

(b) Landlord agrees to maintain and keep the Building in good condition and repair and replace (when necessary) Landlord-controlled portions of the Building, including, but not limited to, roof, exterior walls, foundation, structural elements, the heating, ventilating and air-conditioning systems, and all other mechanical, sprinkler, plumbing and electrical systems in the Building, including those located within the Premises, as well as any and all other portions of the Premises or the Building. All repairs made by Landlord shall be in accordance with applicable laws, rules and ordinances. Without limiting the generality of the foregoing, all plumbing shall be maintained to allow the discharge of non-hazardous dialysis solution. Landlord shall maintain the condition of the Premises in accordance with standards from time to time prevailing in the operation of medical facilities similar to Tenant's long-term acute care hospital and in compliance with all applicable federal, state, and local laws and regulations.

10. Failure to Repair. If Tenant fails, after ten (10) prior days' written notice from Landlord, to commence and continuously prosecute any repairs required by the terms of Section 9(a) this Lease to be made by Tenant, Landlord may, at its option (but without being obligated to do so), enter upon the Premises at all reasonable hours to make such repairs, and the expense incurred by Landlord shall be paid by Tenant as Additional Rent upon demand. All rights given to Landlord herein shall be in addition to any other right or remedy of Landlord contained in this Lease.

11. Equipment. Tenant may install in the Premises, at Tenant's sole expense, medical and other equipment related to its practice, which does not require additional plumbing, mechanical or electrical installations or services. Tenant shall not, without the prior written consent of Landlord (which consent shall not be unreasonably withheld, conditioned or delayed), install any such equipment which will necessitate additions to the plumbing, mechanical or

electrical installations or services, and if such consent is granted, Tenant shall pay all of the costs incurred in connection therewith.

12. Tenant's Improvements. Tenant shall not make any alterations, installations, additions or improvements to the Premises without Landlord's prior written consent, (which consent shall not be unreasonably withheld, conditioned or delayed), and then only by contractors or mechanics approved by Landlord in the exercise of Landlord's reasonable discretion. All such work shall be done at Tenant's sole expense and shall comply with Section 18 below. All alterations, installations, additions, or improvements made by Tenant after inception of the Lease, as well as any initial tenant improvements shall immediately upon completion or installation thereof be and become the property of Landlord without any payment therefore by Landlord, but subject to the provisions of this Lease; provided, however, that the Tenant Improvements shall be owned by Tenant during the Term and provided, further, that all equipment (other than building service equipment), trade fixtures (including, without limitation, any nurse call system), moveable partitions, furniture and furnishings installed by Tenant or maintained on the Premises, even if permanently affixed thereto, shall remain the property of Tenant and Tenant shall be entitled to remove the same during the Term, provided that Tenant repairs any damage to the Premises resulting from such removal. Tenant may, but shall not be required to, remove such equipment, trade fixtures, moveable partitions, furniture and furnishings prior to the expiration or termination of this Lease. Landlord shall have the right to require when consenting to any alterations, installments, additions or improvements by Tenant that such alterations, installations, additions or improvements made by Tenant after inception of the Lease (but not the initial tenant improvements installed by Landlord), be removed at the expiration or other termination of the Lease and the Premises restored to its condition prior to the installation thereof and Tenant hereby agrees, if Landlord so requires when providing consent to the same, to cause the same to be removed at Tenant's sole cost and expense. If Tenant fails to remove the same, Landlord may cause them to be removed at Tenant's expense and Tenant hereby agrees to reimburse Landlord for the cost of such removal together with all and any damages which Landlord may suffer by reason of the failure of Tenant to remove the same. The provisions of this Section 12 shall survive the expiration or the earlier termination of this Lease.

13. Surrender. Upon the expiration or the earlier termination of this Lease, Tenant shall quit and surrender the Premises to Landlord in good order and condition, excepting reasonable use and wear thereof and damage by fire or other casualty, and Tenant shall remove all of its personal property from the Premises by the date of expiration or the earlier termination of this Lease. Tenant shall return to Landlord all keys of offices or other spaces, either furnished to, or otherwise procured by, Tenant.

14. Right of Entry. Landlord and its agents shall have the right during normal business hours to enter the Premises, after not less than two (2) days prior notice to Tenant; to examine, to show the Premises to prospective tenants during the last twelve (12) months of the Term, or to make such repairs, alterations or improvements as may be deemed necessary or proper. All such entry (including, without limitation, entry during an emergency) into the Premises shall be in compliance with all applicable patient privacy laws, and Landlord shall use reasonable efforts to minimize interruption to the operation of Tenant's hospital in the Premises. Except for

emergency repairs, Landlord shall make arrangements with Tenant to make such repairs, alterations or improvements at such time and in such manner as to not unreasonably interfere with Tenants use of the Premises. In the event of an emergency, Landlord shall have the right to enter the Premises at any time and with only such notice as is reasonable in the circumstances. Provided Landlord complies with this Section 14, Landlord shall not be deemed or held guilty of an eviction of Tenant; and the Rent reserved shall in no way abate while such repairs, alterations and improvements are being made; and Tenant shall not be entitled to maintain a set-off or counter claim for damages against Landlord by reason of loss or interruption to the business of Tenant because of the prosecution of any such work. If, during the last month of the Term, Tenant has vacated the Premises and removed all or substantially all of its personal property thereupon, Landlord may immediately, enter and alter, renovate and redecorate the Premises. The exercise of such reserved right by Landlord shall not be deemed an eviction of Tenant or a disturbance of Tenant's use and possession of the Premises and shall not render Landlord liable in any manner to Tenant or any other person, nor shall the same constitute grounds for an abatement of Rent hereunder.

15. Signs. Subject to approval by the Ground Landlord and in compliance with the requirements and restrictions contained in the Ground Lease, as it may be modified by the Ground Landlord Consent, Tenant, at Tenant's sole cost and expense, may place and maintain in and about the Premises, including on the exterior of the building, in Landlord's lobby areas and at the elevators, neat and appropriate signs clearly identifying Tenant and its business therein as separate and distinct from the business of Landlord. Landlord shall have the right to approve the placement, design and quantity of all such signs, which approval shall not be unreasonably withheld. Such signage shall be erected in accordance with any applicable government regulations. Upon the expiration or earlier termination of this Lease, Tenant shall remove all signs and repair any damage to the Premises or appurtenant areas caused by the erection, maintenance, or removal of the signs. Any signs must be consistent in design, size, and constructions with existing signs and buildings.

16. Telephone and Data.

(a) Data Cabling – The cost and installation of any data cabling to support Tenant's computer and information systems within the Premises shall be the responsibility of Tenant. If Tenant desires to install its own network cabling, that cabling must be done at Tenant's sole expense by a licensed contractor who will be responsible for obtaining their own electrical permit. Prior to installation of any cabling, Tenant must obtain Landlord's prior written approval of the location and nature of the cabling, as well as the contractor doing the installation (which consent shall not be unreasonably withheld, conditioned or delayed). If Tenant installs data cabling after the date of this Lease, Landlord may, at the time it consents to the installation of such cabling (or at any time if Landlord does not consent to the installation) request that Tenant remove such cabling upon the expiration of this Lease (in which case Tenant shall remove such cabling) and restore any damage caused by such removal.

(b) Telephone Service – Landlord has coordinated with the local telephone utility to provide dial tone service in the main Data/Telecom closet on the same floor as the Premises. All

telephone utility charges, including setup, installation and ongoing service charges will be the responsibility of Tenant.

17. Assignment and Subletting. Tenant shall have the right, upon notice to Landlord, to assign this Lease to any entity controlling, controlled by or under common control with Tenant. Otherwise, Tenant may not assign its interest in this Lease or sublet all or any portion of the Premises without Landlord's prior written consent, which may be granted or withheld in Landlord's sole and absolute discretion. No permitted assignment, sublease, mortgage, encumbrance, subletting or use of the Premises shall constitute a waiver of the provisions of this Section 17, nor permit any subsequent proscribed act without compliance with this Section 17. No permitted assignment or sublease shall relieve Tenant of its obligations under this Lease unless specifically agreed to in writing by Landlord. As used in this Lease, "assign" or "assignment" shall mean and include any such assignment or transfer, whether voluntary, involuntary or by operation of law. Any assignee or subtenant must comply with all of the terms and provisions of this Lease, be bound by all of the restrictions contained in this Lease and any assignee must assume the obligations of Tenant arising after the effective date of the assignment in a writing reasonably satisfactory to Landlord. Landlord may assign or transfer its interest in this Lease without Tenant's consent, and upon any such assignment or transfer shall be released from any obligations arising subsequent to such assignment or transfer.

18. Liens. Upon Landlord being named as a defendant in a suit seeking to impose a mechanic's, materialman's or other lien, as a result of any contractor, subcontractor or material provider performing work for or supplying materials to Tenant, Tenant shall have the right at its own expense to contest the amount or validity, in whole or in part, of any imposition or the assertion or claim of any mechanic's or materialman's or other lien of any kind by appropriate proceedings diligently conducted in good faith. Should any mechanic's or materialman's or other lien (whether interlocutory or permanent) be imposed on the Premises or the Building as a result of such work done or material supplied for Tenant, then in that event Tenant within thirty (30) days after the establishment of said lien, shall promptly discharge or bond said lien and pay all costs associated therewith including reasonable attorney fees of Landlord, interest, and penalties. If Tenant fails to discharge or bond said lien and pay all costs associated therewith within such thirty (30) day period, then Landlord may pay the amount of said lien and the costs associated therewith and shall then charge Tenant as Additional Rent due immediately, a sum equal to the amount paid by Landlord to discharge the lien and for the costs associated therewith, including reasonable attorney fees of Landlord, plus interest on said sum at the rate of interest then designated as the "prime rate" by the Wall Street Journal (and if more than one prime rate is quoted, then the highest prime rate shall be utilized) (the "Prime Rate"), plus five percent (5%) per annum.

19. Subordination, Attornment and Waiver. Subject to any modifications made in the Ground Lessor Consent,:

(a) This Lease shall be subject and subordinate to the lien, operation and effect of the Ground Lease and of any present or future fee or leasehold mortgage or mortgages upon Landlord's interest in the Premises, the Building or the Land, irrespective of the time of

execution or the time of recording of any such mortgage or mortgages; provided, that the holder of the Ground Lease and any mortgage agree not to disturb Tenant's possession of the Premises. The word "mortgage" as used in this Lease, includes mortgages, deeds of trust or other similar instruments and modifications, extensions, renewals and replacements thereof and any and all advances thereunder. Notwithstanding the foregoing, this Lease and Tenant's right to quiet possession of the Premises shall not be terminated or disturbed in the event of the foreclosure of any such mortgage or any other transfer in connection therewith, unless an Event of Default has occurred hereunder. Tenant shall not cause a breach of the provisions of the Ground Lease.

(b) Tenant agrees that upon foreclosure or sale under any mortgage to which this Lease is now or shall hereafter become subject and subordinate or upon termination of the Ground Lease, Tenant, will attorn to the mortgagee or purchaser upon foreclosure, or the landlord, from time to time ("Master Landlord") under the Ground Lease, as the case may be, will pay to such mortgagee or purchaser or Master Landlord all the Rents and other moneys required to be paid by Tenant hereunder after such purchase or foreclosure and perform all of the other terms required to be performed by Tenant under this Lease. Tenant further agrees that, in the event the Ground Lease is terminated on account of a default by Landlord thereunder, at the request of Master Landlord, Tenant shall enter into a new lease with Master Landlord on terms substantially identical to the terms of this Lease, provided, however, in no event shall Master Landlord be (i) liable for any breach of any obligation owed by Landlord nor shall Master Landlord be liable to Tenant for the return to Tenant of (A) any sums on deposit with Landlord, including, without limitation, security deposits, (B) allowances or inducements made available to Tenant, including, without limitation, leasehold improvement allowances, unless such sums on deposit or the cash value of such allowances or inducements are actually transferred by Landlord to Master Landlord, (ii) subject to any offsets, claims or defenses which Tenant may have against Landlord, (iii) bound by any payment of Rent which Tenant might have made for more than one (1) month in advance. Upon Tenant's written request made to it, Landlord shall request that the holder of any such mortgage shall execute and deliver to Tenant an instrument, wherein such mortgagee agrees that so long as no Event of Default has occurred, this Lease and Tenant's right to quiet possession of the Premises shall not be terminated or disturbed by such mortgagee.

(c) Tenant shall have the right to finance and/or lease equipment, trade fixtures and inventory used in the conduct of its business at the Premises, but may not pledge or otherwise encumber the leasehold interest created hereby or any portion of the Premises. Landlord hereby waives any statutory or common law lien Landlord may have in Tenant's equipment, trade fixtures, inventory and other personal property. Within fifteen (15) days after Tenant's written request, Landlord shall execute, acknowledge and deliver to any lessor of equipment or to any lender designated by Tenant, a landlord's waiver or similar document by which Landlord waives any lien rights it may have with respect to any leased item or collateral which is located within or is attached to the Premises. Such waiver will provide the designated lessor or lender with reasonable access to the Premises to recover such leased item or collateral and shall contain such reasonable and customary terms and conditions as is standard in the industry at the time of Tenant's request.

(d) The provisions of this Section 19 shall survive the expiration or termination of this Lease.

20. Indemnification of Third Party Claims.

(a) Tenant hereby agrees to indemnify, defend, and hold Landlord harmless from third party claims: (i) for personal injury, bodily injury, death, property damage or other incidents occurring in the Premises, unless caused by Landlord, or its agents, employees or invitees; and (ii) caused by the negligence or willful misconduct of Tenant, its agents, employees, or invitees. When the claim is caused by the joint negligence or willful misconduct of Tenant and Landlord or Tenant and a third party unrelated to Tenant, except Tenant's agents, employees, or invitees, Tenant's duty to defend, indemnify, and hold Landlord harmless shall be in proportion to Tenant's allocable share of the joint negligence or willful misconduct.

(b) Landlord hereby agrees to indemnify, defend, and hold Tenant harmless from third party claims: (i) for personal injury, bodily injury, death, property damage or other incidents occurring in areas outside the Premises, but within the Building, unless caused by Tenant, or its agents, employees or invitees; and (ii) caused by the negligence or willful misconduct of Landlord, its agents, employees, or invitees. When the claim is caused by the joint negligence or willful misconduct of Landlord and Tenant or Landlord and a third party unrelated to Landlord, except Landlord's agents, employees, or invitees, Landlord's duty to defend, indemnify, and hold Tenant harmless shall be in proportion to Landlord's allocable share of the joint negligence or willful misconduct.

(c) The provisions of this Section 20 shall survive the expiration or termination of this Lease.

21. Tenant Reporting.

(a) Estoppel Certificates. Tenant agrees that, within fifteen (15) days after written request by Landlord, Tenant will execute, acknowledge, and deliver to Landlord or any party designated by Landlord, a certificate stating (i) that the Lease is unmodified and in full force and effect (or if there have been modifications, that the Lease is in full force and effect as modified, and identifying the modification agreements, or if the Lease is not in full force and effect, the certificate shall so state) and attaching a true, complete and correct copy of this Lease; (ii) whether or not there is any existing default by Tenant in the payment of any Rent or other sum of money under the Lease, and whether or not, to the best of Tenant's knowledge, there is any existing default by either party under the Lease with respect to which a notice of default has been served, and if there is any such default, specifying the nature and extent thereof; (iii) whether or not Tenant claims any set-offs, defenses, or counterclaims against enforcement of the obligations to be performed by Tenant under this Lease; and (iv) such other matter or statement as may be reasonably requested by Landlord or such assignee or mortgagee. Landlord agrees that, within fifteen (15) days after written request by Tenant, Landlord will execute, acknowledge, and deliver to Tenant or any assignee or subtenant designated by Tenant, a

certificate stating (i) that the Lease is unmodified and in full force and effect (or if there have been modifications, that the Lease is in full force and effect as modified, and identifying the modification agreements, or if the Lease is not in full force and effect, the certificate shall so state) and attaching a true, complete and correct copy of this Lease; (ii) whether or not there is any existing default by Tenant in the payment of any sum of money due Landlord under the Lease, and whether or not there is any existing default by either party under the Lease with respect to which a notice of default has been served, and if there is any such default, specifying the nature and extent thereof; and (iii) such other matter or statement as may be reasonably requested by Tenant or assignee or subtenant.

(b) Financial Reporting. Upon request by Landlord, Tenant shall provide the following:

(i) Within thirty (30) days after finalizing the same, unaudited financial statements of Select Medical Corporation (balance sheet and the related statement of income and retained earnings) prepared in accordance with generally accepted accounting principles ("GAAP"), consistently applied, except as otherwise indicated in such statements, provided that Landlord hereby waives this requirement so long as the foregoing financial information is publicly available; and

(ii) Within thirty (30) days after finalizing the same, unaudited financial statements of Select Medical Corporation (balance sheet and the related statement of income and retained earnings) prepared in accordance with GAAP, consistently applied, except as otherwise indicated in such statements, along with a certificate of Guarantor's Chief Financial Officer certifying that such financial statements are true and correct; provided that Landlord hereby waives this requirement so long as the foregoing financial information is publicly available.

22. Notice of Casualty. Tenant shall give Landlord oral or written notice in case of fire or accidents in the Premises (and, to the extent it affects Tenant, in the Building) promptly after Tenant learns thereof.

23. Damage or Destruction

(a) If during the term of this Lease the Building or the Premises are damaged by fire or other casualty, Landlord shall promptly restore the Building and the Premises to their condition immediately prior to the casualty. Notwithstanding the foregoing, if, pursuant to the terms of the Ground Lease, Landlord is not required to restore the Building or the Premises, then Landlord may either restore the Building and the Premises to their condition immediately prior to the casualty or terminate this Lease. Such election shall be exercised by Landlord by written notice to Tenant within thirty (30) days after the casualty.

(b) If Landlord chooses or is obligated to restore the Building and the Premises, it shall prepare or cause to be prepared and delivered to Tenant within thirty (30) days after the casualty a reasonable estimate of the time needed to restore the Building or the Premises

to their condition immediately prior to the casualty. If the time period indicated in the notice exceeds one hundred eighty (180) days from the date of the casualty, Tenant may terminate this Lease within ten (10) days of receipt of Landlord's notice. Landlord shall not be responsible to repair or restore any alterations or improvements made by Tenant or any of Tenant's machinery, equipment, trade fixtures, movable partitions, furniture and furnishings.

(c) Rent shall be equitably abated for any period that the Premises are destroyed or damaged to the extent that Tenant is substantially prevented from carrying on its business in the Premises.

24. Landlord's Insurance. Landlord shall maintain such insurance relating to the Building and the activities to be conducted therein as is required by the terms of the Ground Lease from time to time.

25. Mutual Waiver of Subrogation. Notwithstanding any provision of this Lease to the contrary, Landlord and Tenant waive the right to claim liability (by way of subrogation or otherwise) against the other party for any loss or damage to the Premises or the Building or the property of either party, covered or required to be covered under this Lease by insurance. All fire and other insurance carried by either Landlord or Tenant covering losses arising out of destruction or damage to the Premises or the Building or their contents shall be written or endorsed to provide that such insurance is not invalidated by the insured's waiver of liability prior to the occurrence of a loss.

26. Condemnation. If the Premises or the Building shall be acquired or condemned in whole or in part, by eminent domain proceedings, or by purchase in lieu thereof, for any public or quasi-public use or purpose, then and in that event, the Term shall cease and terminate on the date that title vests in the condemning authority, and Rent shall be adjusted to such date.

27. Award. In the event of termination of this Lease under Section 25, Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease. Tenant shall have no claim against Landlord, other than the adjustment of Rent, or be entitled to any portion of any amount that may be awarded as damages or paid as a result of such proceedings or as the result of any agreement by the condemning authority with Landlord. Tenant shall not be entitled to any portion of the condemnation award for the real property, but this shall not preclude any claim by Tenant for moving expenses or other statutory reimbursement from the condemning authority out of other funds, which do not affect Landlord's potential award.

28. Events of Default.

(a) Each of the following events of default shall be deemed a default by Tenant and a breach of this Lease (an "Event of Default"):

(i) an admission in writing by Tenant of its inability to pay its debts generally as they become due;

(ii) Tenant's filing a petition in bankruptcy or for reorganization or for the adoption of an arrangement under the Bankruptcy Code (as now in effect or as in the future amended) or an admission seeking the relief therein provided;

(iii) Tenant's making an assignment for the benefit of its creditors;

(iv) Tenant's consenting to the appointment of a receiver or trustee for all or a substantial part of its property or to the filing of a petition against it under such Bankruptcy Code;

(v) Tenant being adjudged a bankrupt;

(vi) The entry of a court order appointing a receiver or trustee for all or a substantial part of Tenant's property or approving as filed in good faith a petition filed against it under said Bankruptcy Code (in both cases without its consent) which order shall not have been vacated or set aside or otherwise terminated within sixty (60) days from the date of entry;

(vii) Failure of Tenant to pay any Rent within five (5) calendar days of notice from Landlord of such failure; provided, however, that Landlord shall be required to give notice only twice during any 12-month period;

(viii) Failure by Tenant in the performance of any term, covenant, agreement or condition of this Lease on the part of Tenant to be performed (other than as elsewhere set forth in this Section 28(a)), which failure is not cured within thirty (30) days after written notice thereof is given by Landlord, or if such failure cannot reasonably be cured within such thirty (30) day period, within such longer period as may reasonably be required, provided that Tenant commences such cure promptly and pursues such cure diligently until completion;

(ix) Failure by Tenant to maintain the insurance required by Section 34 below, and such failure shall continue for ten (10) days after written notice thereof is given by Landlord; or

(x) Any action undertaken by Tenant which results in a violation of the terms of the Ground Lease.

(b) If an Event of Default shall occur, Landlord shall have the option to do any of the following in addition to and not in limitation of any other remedy permitted by law or by this Lease: (i) to re-enter the Premises to dispossess Tenant and all other occupants from the Premises and to remove any or all of Tenant's property at the Premises, (ii) to store Tenant's property in a public warehouse or elsewhere at the cost, risk, and expense of Tenant, without Landlord's being deemed guilty of trespass or becoming liable for any loss or damage which may occur on Tenant's property, and (iii) to otherwise dispose of Tenant's property.

(c) If an Event of Default shall occur, Landlord, in addition to any other remedies it may have at law, in equity, by statute, or under any other provision of this Lease, shall

have the right to terminate this Lease, as well as all right, title, and interest of Tenant hereunder, by giving to Tenant not less than thirty (30) days' advance written notice of Landlord's election to cancel and to terminate this Lease. Upon the expiration of the time fixed in the notice of termination, this Lease and the balance of the term of this Lease then remaining, as well as all of the right, title, and interest of Tenant under this Lease, shall expire in the same manner and with the same force and effect (except for Tenant's liability as hereinafter set forth) as if the expiration of the time fixed in the notice of termination were the date upon which the term of this Lease would normally have expired. Tenant shall then quit and surrender the Premises and each and every part thereof to Landlord, and Landlord may enter upon the Premises, by summary proceedings, or otherwise. In any of such events, Landlord shall be entitled to the benefit of all provisions of the ordinances and public local laws of the city or county where the Premises is located and of the laws of the state in which the Premises is located dealing with the speedy recovery of lands and tenements held over by tenants or proceedings in forcible entry and detainer, whether now or hereafter in force and effect. Upon any entry or re-entry by Landlord, with or without legal process, Landlord shall also have the right (but not the obligation) to relet all or any part of the Premises, from time to time, at the risk and expense of Tenant. No re-entry by Landlord with or without a declaration of termination shall be deemed to be an acceptance or a surrender of this Lease or as a release of Tenant's liability for damages under the provisions of this Section 29.

(d) Tenant further agrees that if an Event of Default shall occur (i) notwithstanding re-entry by Landlord with or without termination pursuant to the provisions of subpart (b) or (c) this Section 28, or (ii) if this Lease is otherwise terminated by reason of Tenant's default, or (iii) if Landlord retakes possession with or without process of law and/or re-enters with or without a declaration of termination, or (iv) if Landlord, following any of the foregoing events, elects to let or relet the Premises (whether once or more than once during the remainder of the term of this Lease, and upon such conditions as are satisfactory to Landlord) that Tenant shall, nevertheless, in each instance, remain liable for the performance of any covenant of this Lease then in default and for all Rent and all other charges and damages that may be due or sustained before and after the date of default and/or termination, together with the cost of seizure and repossession of the Premises and reasonable attorney's fees incurred by Landlord as a result of the breach of this Lease.

(e) In any of the events described above, Tenant agrees that it will remain liable to Landlord for liquidated damages to be calculated in either of the following ways:

(i) the Rent that, but for the termination of this Lease, would have become due during the remainder of the term of this Lease, less the amount or amounts of Rent, if any, that Landlord shall receive during such period from others to whom the Premises may be rented net of all costs and expenses incurred by Landlord in connection with Tenant's default, including, but not limited to, the cost to repair, restore, renovate, or decorate the Premises for a new tenant, reasonable attorney's fees, real estate commissions, the reasonable cost of any legal actions brought against Tenant, in which case liquidated damages shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following the

termination of this Lease and shall continue until the date on which the term of this Lease would have expired but for such termination; or

(ii) the Rent that, but for the termination of this Lease, would have become due during the remainder of the term of this Lease, less the fair rental value of the Premises, as determined by an independent real estate appraiser selected by Landlord, in which case such liquidated damages shall be discounted to present value, using as a discount factor the Prime Rate of interest, and shall be payable to Landlord in one lump sum on demand. In no event shall Landlord be required to account to Tenant for any amounts by which the fair rental value shall have exceeded the stipulated Rent at the time of such termination.

(f) Suit or suits for the recovery of such deficiency or damages or for a sum equal to any installment of Rent and other charges payable hereunder may be brought by Landlord from time to time, at Landlord's election. Nothing herein contained shall be deemed to require Landlord to await the date when this Lease or the term of this Lease would have normally expired had there been no such default by Tenant or no such termination by Landlord, nor shall Landlord be barred by any claim involving a statute of limitations or other defense should Landlord delay in filing suit.

(g) No payment received by Landlord from Tenant after re-entry or the termination of this Lease in any manner shall reinstate, continue, or extend the term of this Lease or affect any notice theretofore given to Tenant by Landlord or operate as a waiver of the right of Landlord to recover possession of the Premises by proper suit, action, proceedings, or other remedy.

(h) If any of the events described in Section 28(a)(i) through Section 28(a)(vi) shall occur with respect to Landlord or if Landlord shall fail in the performance of any term, covenant, agreement or condition of this Lease on the part of Landlord to be performed, which failure is not cured within thirty (30) days after written notice is given by Tenant or if such failure cannot reasonably be cured within such thirty (30) day period, within such longer period as may reasonably be required, provided that Landlord commences such cure promptly and pursues such cure diligently until completion, then Landlord shall be deemed to be in default of this Lease (any such event being herein referred to as a "Landlord Default").

(i) If a Landlord Default shall occur, then Tenant shall have available to it any remedies it may have at law, in equity or by statute and, in addition, shall have the right to terminate this Lease, by giving to Landlord not less than thirty (30) days advance notice of Tenant's election to cancel and terminate this Lease. If the Landlord Default endangers the health or safety of Tenant's patients or employees or Tenant's licensure or accreditation, Tenant may, upon written notice to Landlord, cure the Landlord Default and offset the cost of such cure against the next due payment(s) of Rent. Upon the expiration of the time fixed in the notice of termination, this Lease and the balance of the term of this Lease then remaining, shall expire in the same manner and with the same force and effect (except for Landlord's liability in damages to Tenant as may be available at law, in equity or by statute) as if the expiration of the time fixed in

the notice of termination were the date upon which the term of this Lease would normally have expired.

(j) In the event of a deliberate Tenant Default which results in the termination of the Lease, Tenant agrees that (i) during the term of this Lease and for a period of five (5) years following the expiration of the then-current Term of this Lease, Tenant shall not engage, and shall not cause or permit any of its subsidiaries or any of its affiliates to (each, a "Covered Person") to engage directly or indirectly, in any capacity, in any activities that Compete with the business of developing, owning, operating, leasing or managing a long term acute care hospital facility within two (2) miles of the Premises. For purposes of this provision, "Compete" means (i) to, directly or indirectly, conduct, facilitate, participate or engage in, or bid for or otherwise pursue a business, whether as a principal, sole proprietor, partner, stockholder, or agent of, or consultant to or manager for, any Person or in any other capacity, or (ii) to, directly or indirectly, have any ownership interest in any Person or business which conducts, facilitates, participates or engages in, or bids for or otherwise pursues a business, whether as a principal, sole proprietor, partner, stockholder, or agent of, or consultant to or manager for, any Person or in any other capacity. Notwithstanding the foregoing, this Section 28(j) shall not apply to or in any way prohibit or restrict any existing ownership interests or operations of a Covered Person as of the Effective Date of this Lease. The parties recognize and acknowledge that a breach of this Section 28(j) by Tenant or any of its Affiliates will cause irreparable and material loss and damage to Landlord and hereby consent to the granting by any court of competent jurisdiction of an injunction or other equitable relief, without the necessity of posting a bond, cash or otherwise, and without the necessity of actual monetary loss being proved or Landlord's establishing the inadequacy of any remedy at law, and order that the breach or threatened breach of such provisions may be effectively restrained.

The provisions of this Section 28 shall survive the expiration or the termination of this Lease.

29. Holding Over. If Tenant holds possession of the Premises after termination of this Lease or any extension or renewal thereof, this Lease shall become a month to month Lease. In such event and accounting from the termination of the Lease or any extension or renewal thereof, the tenancy shall be at one hundred fifty percent (150%) of the Rent payable prior to such holdover, but otherwise upon all the other terms of this Lease, including the provisions of this Section 29. Such additional term shall terminate upon thirty (30) days' notice from Landlord or Tenant, and if Tenant fails to vacate following such thirty (30) days' notice from Landlord, Landlord may treat Tenant as a trespasser and shall be entitled to the benefit of all provisions of the ordinances and public local laws of the city or county where the Premises is located and of the laws of the state in which the Premises are located dealing with the speedy recovery of lands and tenements held over by tenants in forcible entry and detainer, whether now or hereafter in effect. Nothing contained herein shall be construed as a consent by Landlord to the occupancy of possession of the Premises by Tenant after the termination of this Lease or any extension or renewal thereof.

30. Waiver.

(a) The failure of Landlord or Tenant to insist, in any one or more instances, upon a strict performance of any of the covenants of this Lease, or to exercise any option herein contained, shall not be construed as a waiver, or a relinquishment for the future, of such covenant or option, but the same shall continue and remain in full force and effect. The receipt by Landlord of Rent, with knowledge of the breach of any covenant thereof, shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision hereof shall be deemed to have been made unless expressed in writing and signed by Landlord. No waiver by Landlord of any breach by Tenant (nor any waiver by Tenant of any breach by Landlord) of any of the terms, covenants, agreements, or conditions of this Lease shall be deemed to constitute a waiver of any succeeding breach thereof, or a waiver of any breach of any of the other terms, covenants, agreements, and conditions herein contained.

(b) No employees of Landlord or of Landlord's agents shall have any authority to accept the keys of the Premises prior to termination of the Lease, and the delivery of keys to any employee of Landlord or Landlord's agents shall not operate as a termination of the Lease or a surrender of the Premises. Nor shall any endorsement or statement on any check or any letter or other instrument accompanying any check or any letter or other instrument accompanying any check or payment as Rent be deemed an accord and satisfaction and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy in this Lease provided. The failure of Landlord to enforce any of the Rules and Regulations made a part of this Lease, or hereafter adopted, against Tenant or any other tenant in the Building shall not be deemed a waiver of any such Rules and Regulations and shall not be deemed a breach of this Lease by Landlord.

31. Severability. If any term or provision of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by the law of the state of Tennessee, which law shall govern all matters pertaining to this Lease.

32. Notices. All notices, demands and requests served by either party under this Lease shall be in writing. All such notices, demands and requests shall be deemed to have been properly given if sent by United States certified mail, return receipt requested, postage prepaid, or by commercial overnight delivery service, addressed (i) if to Landlord, to the address where Rent payments are then being made pursuant to Section 4 hereof with a copy to Lowndes, Drosdick, Doster, Kantor & Reed, P.A., PO Box 2809, Orlando, FL 32802-2809, Attn: William T. Dymond, Esq., or (ii) if to Tenant, then at Select Specialty Hospital – North Knoxville, Inc., c/o Select Medical Corporation, 4714 Gettysburg Road, Mechanicsburg, PA 17055, Attn: President, LTACH Division, with a copy to Select Medical Corporation, 4714 Gettysburg Road, Mechanicsburg, PA 17055, Attn: General Counsel. Any party may designate a change of address by written notice (complying with the terms of this Section 31) to the other, given at least ten (10) days' before such change of address is to become effective. Notices, demands, and

requests which shall be served by certified mail or overnight delivery in the manner aforesaid shall be deemed sufficiently served or given for all purposes hereunder at the time such notice, demand or request shall be tendered for delivery in the case of notice sent by commercial overnight delivery or three (3) business days after deposit in the United States mail, in the case of notice sent by certified mail.

33. Liability and Other Insurance.

(a) Select Medical Corporation maintains on its behalf, as well as on behalf of its subsidiaries and managed entities (including Tenant), Excess Commercial General Liability Insurance on an "Occurrence" Basis and Excess Professional Liability Insurance on a "Claims Made" Basis with combined Limits of \$10,000,000 Each Occurrence or Claim/\$10,000,000 Policy Aggregate excess of a \$2,000,000 Self-Insured Retention (SIR) that applies Each Occurrence or Claim. The policy automatically covers Additional Insureds where required by written contract and entered into prior to the Occurrence or Claim.

(b) Should any medical professional services be contemplated as part of this Lease, Tenant shall obtain and maintain Professional Liability insurance including medical professional liability on an occurrence form with limits not less than Two Million Dollars (\$2,000,000) per claim and Two Million Dollars (\$2,000,000) policy aggregate. Should a "Claims Made" policy be obtained, coverage must be continuously maintained with a retroactive date preceding the commencement date of this Lease, and shall continue for a period following the expiration or termination of the Lease that is sufficient to cover any applicable statute of limitations. With respect to any "Claims Made" professional liability insurance obtained during the term of this Agreement, which is subsequently terminated for any reason, Tenant shall purchase a new "Claims Made" policy or a tail coverage insurance policy with an extended reporting period of not less than two (2) years. For occurrence-based coverage, Tenant shall continuously maintain policies for a period of not less than two (2) consecutive years following expiration or termination of the Lease.

(c) Tenant shall maintain Commercial Automobile Liability coverage for any automobile including, but not limited to, all owned, non-owned, leased, hired and borrowed automobiles with coverage limits of at least One Million Dollars (\$1,000,000) combined single limit per accident.

(d) Tenant shall maintain Workers' Compensation coverage subject to the Workers' Compensation laws of the applicable state and Employer's Liability coverage in the minimum amounts of One Million Dollars (\$1,000,000) each accident, One Million and Dollars (\$1,000,000) Disease - Policy Limit, and One Million Dollars (\$1,000,000) Disease - each employee, or such other amounts as are required by law or available on a voluntary basis.

34. Tenant's Contractors Insurance. Tenant shall require any contractor of Tenant performing work in or on the Premises to carry and maintain, at no expense to Landlord such contractors insurance as is reasonably required by Landlord.

35. Requirements for Tenant's Insurance Policies.

(a) The company or companies writing any insurance which Tenant is required to carry and maintain or cause to be carried or maintained pursuant to this Lease as well as the form of such insurance shall at all times be subject to Landlord's approval, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant's Commercial General Liability insurance and Commercial Property insurance policies, and certificates evidencing such insurance, shall name Landlord and its Management Agent and any lender specified by Landlord as additional insured on the Commercial General Liability and loss payee on the Commercial Property and contain a provision by which the insurer agrees that such policy shall not be canceled or expire except after thirty (30) days' written notice to Landlord and any other such persons.

(b) Tenant shall provide Landlord, prior to taking possession of the Premises, current certificates evidencing all such insurance required under this Lease, and shall provide additional renewal certificates at least ten (10) days prior to the date any such insurance is to lapse.

36. Renewal Period.

(a) Provided no Event of Default has occurred and is continuing at the time the renewal term is to commence, Tenant shall have the option to renew this Lease for two (2) additional term(s) of five (5) years each, each commencing on the day immediately after the date on which (but for such renewal) the Term would have expired and terminating the day immediately preceding the fifth anniversary of such day. In order to exercise such option to renew, Tenant must notify Landlord in writing of Tenant's election of such option not less than six (6) months prior to the date on which (but for such renewal) the Term would have expired. If Tenant gives such timely written notice to Landlord (and no Event of Default has occurred and is continuing at the time the renewal becomes effective) this Lease shall be renewed for such five (5) year term on the same terms and conditions as previously applicable to the Lease, except the Rent for the renewal period shall be three percent (3%) over the annual Base Rent that Tenant is paying at the time Tenant gives notice of its intention to renew the Term of this Lease.

(b) Upon the exercise by Tenant of an option to extend, Landlord and Tenant shall promptly enter into a written supplement to this Lease confirming the terms, conditions and provisions applicable to the renewal term.

(c) If Tenant does not elect to exercise its first renewal of the lease as permitted pursuant to Paragraph 36(a) above, then Tenant agrees to reimburse Landlord in an amount equal to the lesser of (i) the unamortized portion of the Tenant Allowance, as shown on the TI Amortization Schedule (as defined in Exhibit D), or (ii) \$10 per rentable square foot.

37. Captions; Choice of Law; Recording. All captions or headings in the margin of this Lease or preceding the text of individual Sections are inserted solely for convenience of reference and none of them shall constitute a part of the Lease or affect its meaning, construction or effect.

This Lease shall be construed, interpreted and enforced in accordance with the laws of the State in which the Premises is located. Neither party shall record this Lease or any memorandum of this Lease.

38. Entire Agreement. This Lease contains the entire agreement between the parties, and any agreement hereafter made shall be ineffective to change, modify, discharge or effect an abandonment in whole or in part of this Lease or any term hereof, unless such agreement is in writing and signed by the party against whom enforcement of the change, modification, discharge or abandonment is sought.

39. Binding Effect/Broker. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their heirs, personal representatives, successors and assigns. Landlord and Tenant each represent to the other that it has not dealt with any brokers in connection with this Lease and that, insofar as it knows, no brokers are entitled to any commissions in connection herewith except for Landlord's obligation to Management Agent. Each of Landlord and Tenant hereby agrees to indemnify, protect and save the other from and against and all claims, obligations or liabilities arising out of or from any brokers claiming through them.

40. Landlord Exculpation. If Tenant obtains a money judgment against Landlord under any provisions of, or with respect to this Lease or on account of any matter, condition or circumstance arising out of the relationship of the parties under this Lease, Tenant's occupancy of the Premises or Landlord's leasehold ownership of the Building, Tenant shall be entitled to execute upon such judgment only to the extent of Landlord's leasehold estate in the Land and the Building and not out of any other assets of Landlord, any of its members or owners, or its or their successors or assigns.

41. Hazardous Materials.

(a) Tenant, at Tenant's sole cost and expense, shall be responsible for medical, special and infectious waste removal from the Premises and the maintenance and storage thereof pending removal, all in accordance with all applicable laws, regulations and orders. Further, Tenant shall not cause or permit the release or disposal of any Hazardous Material (as defined below) or any medical, special or infectious wastes, on or about the Premises or the Building except in accordance with applicable law. Landlord acknowledges and agrees that Tenant will discharge non-hazardous dialysis solutions from the Premises in accordance with applicable law.

(b) Any Hazardous Material or medical, specials or infectious wastes permitted on the Premises as provided in Section 42(a), above, and all containers therefore, shall be used, kept, stored and disposed of in a manner that complies with all Federal, state and local laws or regulations applicable to any such Hazardous Material. Tenant shall not permit the mixing or disposal of any Hazardous Material or any medical, special or infectious waste with the general office refuse and Landlord shall have no duty or obligation to remove any Hazardous Material or any medical, special or infectious waste from the Premises.

(c) Tenant shall not discharge, leak or emit, or permit to be discharged, leaked or emitted, any material into the atmosphere, ground, sewer system or any body of water, if such material (as reasonably determined by Landlord, or as determined by any governmental authority) does or may, pollute or contaminate the same, or may adversely affect (a) the health, welfare or safety of persons, whether located on the Premises or elsewhere, or (b) the condition, use or enjoyment of the Building or any other real or personal property.

(d) As used herein, the term "Hazardous Material" means (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, and regulations promulgated thereunder; (c) any "oil, petroleum products, and their by-products"; and (d) any substance which is or becomes regulated by any Federal, State or local governmental authority.

(e) Tenant shall give immediate notice to Landlord of any violation or potential violation of the provisions of Section 42(b) above and shall deliver to Landlord immediately after receipt by Tenant from time to time copies of any correspondence or any written documents sent to Tenant by (and from Tenant to) any Federal, State and local authorities, agencies, or bodies relating to Hazardous Materials at or on the Premises. Tenant shall defend, indemnify and hold harmless Landlord and its agents, officers, members, stockholders and employees, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses (including, without limitation, reasonable attorney and consultant fees, court costs and litigation expenses) of whatever kind or nature, known or unknown, contingent or otherwise, arising out of or in any way related to (a) the presence, disposal, release, or threatened release of any Hazardous Material or medical, special or infectious wastes from the Premises which is on, from, or affecting the soil, water, vegetation, buildings, personal property, persons, animals, or otherwise; (b) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to Hazardous Material, medical, special or infectious wastes from the Premises; (c) any lawsuit brought or threatened, settlement reached or government order relating to Hazardous Material, medical, special or infectious waste released from or on the Premises by Tenant, its employees, contractors, agents or invitees; and/or (d) any violation of any laws applicable thereto, provided, however, none of the foregoing obligations of Tenant shall apply with respect to any Hazardous Material which existed on, in or under the Premises prior to the Commencement Date, unless Tenant handles or disposes of such Hazardous Materials negligently.

(f) The provisions of this Section 42 shall survive the expiration or the termination of this Lease.

42. Attorney's Fees. In the event of any litigation or similar proceeding arising out of or in connection with this Lease or Tenant's occupancy of the Premises, the prevailing party in any such litigation or other proceeding shall be paid its reasonable attorney's fees and expenses and court costs by the party that does not prevail. The provisions of this Section 43 shall survive the expiration or termination of this Lease.

43. **WAIVER OF TRIAL BY JURY.** LANDLORD AND TENANT HEREBY KNOWINGLY AND VOLUNTARILY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER PARTY ON ANY AND EVERY MATTER, DIRECTLY OR INDIRECTLY, ARISING OUT OF OR WITH RESPECT TO THIS LEASE OR THE PREMISES.

44. **Force Majeure.** Whenever a period of time is herein prescribed for action to be taken by Landlord or Tenant, Landlord or Tenant will not be liable or responsible for, and there will be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor and materials, theft, fire, public enemy, injunction, court order, requisition of other governmental laws, regulations or restriction or any other causes of any kind whatsoever which are beyond the reasonable control of Landlord or Tenant. The forgoing, however, shall not excuse any delay in making any payment due from a party hereto, including, but not limited to any payment of Rent.

45. **Information for Tenant's Quality Indicators.** Landlord will provide Tenant with Landlord will provide quarterly summary of property maintenance and repair work orders completed and the time frame it took to complete each order.

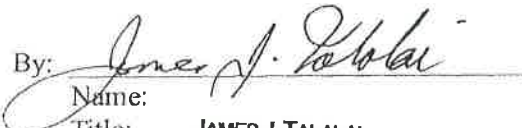
46. **Guaranty.** Contemporaneously with the execution of this Lease, Tenant shall cause Select Medical Corporation to execute and deliver to Landlord the Guaranty attached to this Lease as Exhibit E.

[SIGNATURES TO FOLLOW]

IN WITNESS THEREOF, the parties hereto have duly executed this Lease on the day and year first above written.

TENANT:

SELECT SPECIALTY HOSPITAL -- NORTH
KNOXVILLE, INC.

By: 
Name: _____
Title: JAMES J. TALALAI
VICE PRESIDENT

LANDLORD:

CHP KNOXVILLE PLAZA B MOB OWNER,
LLC

By: _____
Name: _____
Title: _____

January 9, 2014

4:15pm

IN WITNESS THEREOF, the parties hereto have duly executed this Lease on the day and year first above written.

TENANT:

SELECT SPECIALTY HOSPITAL – NORTH
KNOXVILLE, INC.

By: _____
Name:
Title:

LANDLORD:

CHP KNOXVILLE PLAZA B MOB OWNER,
LLC

By: Kevin R Maddalon
Name: Kevin R. Maddalon
Title: SUP

Exhibit A

GROUND LEASE

GROUND LEASE AGREEMENT

between

**ST. MARY'S HEALTH SYSTEM, INC.,
as Landlord,**

and

**EMORY DEVELOPMENT PARTNERS, LLC
as Tenant**

December 12th, 2007

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GROUND LEASE AGREEMENT

THIS GROUND LEASE (this "Lease") is made as of the 12th day of December, 2007, by and between ST. MARY'S HEALTH SYSTEM, INC., a Tennessee nonprofit corporation, ("Landlord"), and EMORY DEVELOPMENT PARTNERS, LLC, a Tennessee limited liability company ("Tenant"), who hereby mutually covenant and agree as follows:

Article I GRANT AND TERM

1.1 Grant; Premises.

Landlord is the owner of certain real property located in the County of Knox, State of Tennessee, legally described on Exhibit A attached hereto and made a part hereof (the "Land"). The Landlord wishes to lease that portion of the Land comprising the footprint of the "Physicians Plaza B" (the "Premises") as shown on the site plan attached hereto as Exhibit B (the "Campus Site Plan") to the Tenant. For and in consideration of the agreement of Tenant to pay Rent (as hereinafter defined) and other sums herein provided and to perform the terms, covenants and conditions herein contained, the full performance and observance of which are hereby agreed to by Tenant, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises.

1.2 Term

The term of this Lease shall commence on the date hereof (the "Commencement Date"), and shall continue in effect for a term of fifty (50) years (the "Initial Term"), unless sooner terminated as provided herein. Tenant shall have five (5) consecutive options to renew and extend the term of this Lease upon the same terms and conditions contained herein for five (5) consecutive periods of five (5) years each (the "Renewal Terms"), provided that no default exists at the time of exercise of any such option, unless Landlord waives such default. Such options shall be exercised by written notice from Tenant to Landlord received by Landlord not less than one hundred eighty (180) days prior to the expiration of the term, as extended. As used herein, the term "Lease Year" means a period of twelve (12) consecutive calendar months beginning on the Commencement Date, and the term shall mean the period from the Commencement Date through the Expiration Date, as the same may be extended, as aforesaid.

Article II PURPOSE

2.1 Purpose

The Tenant intends to construct and operated a medical office building upon the Premises to be known as Physicians Plaza B ("MOB B") and to lease tenant space in MOB B. MOB B shall be used and occupied as medical offices, and for no other purposes. The location of MOB B on the Land is shown on the Campus Site Plan. MOB B will be adjacent to an ambulatory care center (the "ACC") and a medical office building known as Physicians Plaza A

owned by Knoxville Equity Partners, LLC ("MOB A") and will share a common atrium lobby (the "Atrium") with the ACC and MOB A, as shown on the Campus Site Plan.

2.2 Compliance; Restrictions

(a) Tenant shall not use or occupy the Premises, or permit the Premises to be used or occupied: (i) contrary to any statute, rule, order, ordinance, requirement or regulation applicable thereto; (ii) in any manner which would violate any certificate of occupancy affecting the same; (iii) which would cause structural injury to the improvements; (iv) cause the value or usefulness of the Premises, or any part thereof, to diminish; or (v) which would constitute a public or private nuisance or waste.

(b) Neither Tenant nor any Subtenant (as hereinafter defined) shall, nor shall they permit anyone else to, engage in any activities on the Premises for any purpose contrary to, or not permitted by, the Ethical and Religious Directives for Catholic Health Care Services promulgated by the National Conference of Catholic Bishops, as they may be amended from time to time (the "Directives"). Tenant covenants that no space in the Premises shall be used in such a manner as to conflict with the Directives, such as permitting the use of space in the Premises to perform abortions or manage campaigns or programs that oppose the Directives. In the event that the Premises are used in contravention of the foregoing, Landlord shall be entitled to exercise all rights available to it to compel compliance with such Directives, including specific performance and injunctive relief to enforce the terms and provisions of this Lease or any Office Lease (as hereinafter defined). Landlord acknowledges and agrees that in the event of a prohibited use of space in the Premises, Landlord shall have the right to terminate this Lease only for (i) Tenant's direct violation of the Directives, or (ii) Tenant's failure to enforce the Directives against a Subtenant after thirty (30) days' written notice of such Subtenant's violation. This provision shall not prohibit Landlord from terminating any Office Lease for any violation of this Section.

(c) Tenant and all Subtenants (as hereinafter defined), shall not (i) use the Premises or any improvements now or hereafter constructed thereon for the treatment, storage, disposal, burial, or placement of any "hazardous substance," as that term is defined under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as the same may now or hereafter be amended ("CERCLA"), pollutants, contaminants or any other substance, the treatment, storage, disposal, burial or placement of which is regulated under any state, federal or local statute, law, rule, regulation or ordinance, except to the extent that such are generally used in offices or are reasonably required in the normal practice of any Subtenant's medical specialty, and then only to the extent permitted by, and in strict compliance with, applicable law, or (ii) release, as that term is defined in Section 101(22) of CERCLA, or permit the release of any hazardous substance, pollutants, contaminants or other substances regulated under applicable federal, state or local statute, rule, regulation or ordinance onto the Premises or into the subsurface thereof or into any surface or ground waters unless said use or release is in compliance with all applicable statutes, laws, rules, regulations and ordinances or pursuant to a valid and current permit or permits from all governmental authorities

having jurisdiction over the Tenant, the Premises or the use and occupancy of the Premises by Tenant and the Subtenants. Landlord acknowledges and agrees that Landlord shall indemnify and hold Tenant and the Subtenants harmless from and against any and all losses, costs, liabilities and claims relating to the treatment, storage, disposal, burial or placement of any hazardous substance at the Premises prior to the date Tenant accepts possession and control of the Premises (the "**Possession Date**").

(d) Tenant shall not use and shall not allow any Subtenant to use the Premises to provide ancillary or diagnostic services which compete with such services provided by Landlord without Landlord's prior written consent, except for services previously provided by such Subtenant to its patients in Knoxville, Tennessee at its offices on the campus of St. Mary's Medical Center, if such Subtenant maintains an office at such location or such other location in Knoxville if such Subtenant does not maintain an office on the campus of St. Mary's Medical Center. Tenant agrees that any physicians employed by or contracted with Tenant shall be at all times members of the active medical staff at St. Mary's Medical Center in Knoxville, Tennessee, except that such physicians shall be permitted to satisfy this requirement by obtaining medical staff membership at the new hospital facility being developed by Landlord at the Premises when such facility becomes licensed and operational.

2.3 Prohibited Use

If the use of the Premises by Tenant or any Subtenant, through no act or fault of Tenant or such Subtenant should at any time during the Term be prohibited by law, ordinance or other governmental regulation, or prevented by injunction, this Lease shall remain in full force and effect, notwithstanding the passage of such law, ordinance, governmental regulation or injunction; provided, however, that in the event that the uses set forth in Section 2.1 are prohibited as aforesaid, Tenant shall have the right to use the Premises for any other lawful purpose not inconsistent with the provisions of Section 2.2 above.

Article III RENT

3.1 Rent

Tenant shall pay to Landlord at 900 East Oak Hill Avenue, Knoxville, Tennessee 37917, Attn: Chief Financial Officer, or to such other person or at such other place as Landlord may from time to time designate in writing, annual rent of Thirty-Three Thousand One Hundred Seventy-Eight Dollars (\$33,178) per Lease Year (the "**Annual Rent**"), to be paid in twelve (12) equal monthly installments of Two Thousand Seven Hundred Sixty-Four Dollars and 83/100 (\$2,764.83) in advance on or before the first (1st) day of each and every calendar month during the Term, commencing on the date the first subtenant occupies space in MOB B construed by Tenant (the "**Rent Commencement Date**", without deduction, demand or billing whatsoever, except that if the Term ends on other than the last day of a calendar year, Annual Rent for such month shall be prorated on a per diem basis. The Annual Rent shall be increased on the fifth (5th) anniversary of the Rent Commencement Date (the "**Initial Adjustment Date**") and on each successive five (5) year anniversary of such date thereafter during the Term of this Agreement

(each such fifth anniversary is hereinafter referred to as an "Adjustment Date"), including any extensions thereof, to an amount equal to the Annual Rent immediately preceding the Adjustment Date multiplied by a fraction, the numerator of which shall be the index number ("Index Number") indicated on the Consumer Price Index for Wage Earners and Clerical Workers ("CPI-W") (1982-1984-100) (revised) issued by the Bureau of Labor Statistics of the United States Department of Labor, under the United States index column, for the month and year in which the Adjustment Date occurs, and the denominator of which shall be the Index Number for the month and year in which the immediately preceding Adjustment Date occurred (or in the case of the first Adjustment Date, the month and year in which the Commencement Date occurred). If there shall be no CPI-W at the time of any Adjustment Date, the most comparable substitute index shall be utilized. In no event shall Annual Rent decrease. Landlord shall notify Tenant in writing of the amount by which the Annual Rent for the applicable Lease Year shall increase, if at all, as of the applicable Adjustment Date (the "Increase Notice"). On or before the first day of the next calendar month following Tenant's receipt of the Increase Notice, Tenant agrees to pay to Landlord any deficiency in Annual Rent paid to Landlord prior to Tenant's receipt of the Increase Notice retroactively to the applicable Adjustment Date. Such Annual Rent, as adjusted in accordance with this Section 3.1 is hereinafter referred to herein as the "Rent."

3.2 No Setoff

All rents shall be paid to Landlord without demand and without setoff at the offices of Landlord specified herein, or at such other address as Landlord may from time to time designate to Tenant by notice in the manner hereinafter provided.

3.3 Net Lease

Except as may otherwise be specifically provided in this Lease or by agreement by the parties, it is the intention of Landlord and Tenant that the rent herein specified shall be completely net to Landlord in each year during the term of this Lease, that all costs, expenses and obligations of every kind relating to the Premises which may arise or become due during the term of this Lease shall be paid by Tenant, and that Landlord shall be indemnified by Tenant against such costs, expenses and obligations; provided, however, that Tenant shall be under no obligation to pay interest on any mortgage on the fee of the Premises, any franchise or income tax payable by Landlord, or any gift, inheritance, transfer, estate or succession tax by reason of any present or future law which may be enacted during the term of this Lease. All taxes, charges, costs and expenses which Tenant is required to pay under this Lease, together with all interest and penalties that may accrue thereon in the event of Tenant's failure to pay such amounts, and all damages, costs and expenses which Landlord may incur by reason of any default of Tenant or failure on Tenant's part to comply with the term of this Lease, shall be deemed to be additional rent hereunder (hereinafter called "Additional Rent"), and, in the event of nonpayment by Tenant, Landlord shall have all the rights and remedies with respect thereto as Landlord has for the nonpayment of the above specified Base Annual Rent. This Lease shall be liberally construed in favor of Landlord to give effect to the above intention of the parties that this shall be an absolutely net lease. Notwithstanding the foregoing, Tenant shall not be prohibited from contracting with Landlord for maintenance and utility services.

3.4 Interest on Late Payments

Each and every installment of Rent and each and every payment of other charges hereunder which shall not be paid when due and which shall remain unpaid for five (5) days following written notice to Tenant, shall bear interest at the Default Rate. Interest shall accrue from the date when the payment or other charge is due under the terms of this Lease until the same shall be paid.

Article IV EASEMENTS

4.1 Vehicular Access Easements

Landlord hereby grants to Tenant, and its successors and assigns, for so long as this Lease is in force and effect, a non-exclusive access easement on, over, across and through such paved roads, driveways and Parking Areas (as defined below) as may be now or hereafter located on the Land for the purpose of providing Tenant, its successors and assigns, and its permittees with vehicular ingress to, egress from, and access between the Premises, MOB B and adjacent streets, roadways and rights-of-way.

4.2 Pedestrian Access Easements

Landlord hereby grants to Tenant, and its successors and assigns, for so long as this Agreement is in force and effect, a non-exclusive access easement on, over, across and through such paved driveways, sidewalks, Parking Areas (as defined below) and common areas of MOB B, the ACC and the Atrium as may be now or hereafter located on the Land for the purpose of providing Tenant, its successors and assigns, and its permittees with pedestrian ingress to, egress from, and access between the Premises, MOB B, the ACC, the Atrium, the Parking Areas and adjacent streets, roadways and rights-of-way.

4.3 Parking Easements

Landlord hereby grants to Tenant, and its successors and assigns, for so long as this Lease is in force and effect, a non-exclusive easement for ingress to and egress from and for parking of motor vehicles on, in and upon the surface parking lots and parking garages or structures located upon the Land and shown on the Campus Site Plan (the "**Parking Areas**") for the purpose of providing Tenant, its successors and assigns, and its permittees with parking privileges. Landlord shall have the right to (a) reconfigure the layout of any Parking Area, (b) close temporarily any portion of the Parking Areas if necessary for repairs and maintenance provided that Landlord is diligently completing such repairs and maintenance at all times such areas are closed, (c) permanently close and/or remove parking spaces and drives in the Parking Areas or (d) construct additional buildings and facilities that will be entitled to the non-exclusive use of the Parking Areas, so long as the sum of the number of parking spaces remaining available for use by Tenant and its permittees in the Parking Areas labeled "A", "B" and "C" on the Campus Site Plan thereafter equals not less than the number of parking spaces necessary to comply with all applicable governmental requirements regarding the total number of spaces required for MOB B. The easement rights granted herein are not exclusive; provided, however,

that Landlord covenants to restrict use of the Parking Areas by parties other than Tenant, its successors and assigns, and its permittees in order to allow Tenant, its successors and assigns, and its permittees the use of the minimum number of parking spaces in Parking Areas "A", "B" and "C" required by all applicable laws, rules or regulations for MOB B.

4.4 Utility and Communication Easements

Landlord hereby grants, conveys and encumbers the Land with perpetual non-exclusive easements for passage, construction, installation, maintenance, repair, replacement and use of utility lines, pipes, wires, conduits, flues, ducts, lines and other equipment including without limitation, electricity, gas, water, communications, sewer and storm drainage from the surrounding public thoroughfares to MOB B and the Premises as described in Exhibit C attached hereto. The location of such Utility and Communication Easements shall be subject to the approval of the Landlord, which approval shall not be unreasonably withheld, conditioned or delayed.

4.5 Storm Drainage Easements

Landlord hereby grants, conveys and encumbers the Land with perpetual non-exclusive easements for storm and surface water drainage for the benefit of the Premises and MOB B in, on, under, over, above, across and through the entirety of the Land for the purpose of providing surface and storm water drainage.

4.6 Common Component Easements

Landlord hereby grants, conveys and encumbers the Land with perpetual non-exclusive easements for the purpose of furnishing connection, support and attachment to walls, footings, foundations, slabs, roofs and other structural systems of MOB B to the Atrium and the maintenance, repair and replacement of the same.

4.7 Easements Run With the Land.

All easements described in this Article shall be perpetual and for the use and benefit of MOB B and the Premises as the case may be. All obligations imposed upon Landlord and Tenant, their successors and assigns, and all future owners of all or any portion of the property encumbered or benefited hereby shall run with the land.

TO HAVE AND TO HOLD the above described easements and rights unto Tenant and its successors and assigns, and Landlord hereby binds itself and its successors and assigns to warrant and defend, all and singular, such easements unto Tenant, and its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof.

4.8 No Rights Created in the General Public.

The easements and rights and privileges pertaining thereto are created for the owner of MOB B, the Owner of Landlord's Facility and the use and benefit of the Premises and (except as

otherwise provided herein) its agents, business guests and invitees. No rights or privileges are intended to be created or established for the benefit of the general public.

**Article V
IMPOSITIONS**

5.1 Payment by Tenant

(a) Tenant shall pay directly to the applicable tax authorities, before delinquent, as additional rent for the Premises, all taxes and assessments, general and special, water rates and all other impositions, ordinary and extraordinary, of every kind and nature whatsoever, which may be levied, assessed or imposed upon the Premises, or any part thereof, or upon any improvements at any time situated thereon, accruing or becoming due and payable during the Term ("**Impositions**"); provided, however, that the general taxes levied against the Premises shall be prorated between Landlord and Tenant as of the Commencement Date and the Expiration Date of the Term for the appropriate Lease Year of the Term (on the basis of Landlord's reasonable estimate thereof).

(b) If the Premises are not separately assessed, upon request of Tenant, Landlord shall use its best efforts to cause the Impositions on the Premises and on the Improvements thereon or thereto to be assessed and billed to Tenant separately from any adjoining properties; provided, however, that upon written notice to Landlord, Tenant shall have the right (but not the obligation) to cause such separate assessment and billing.

If the Impositions on the Premises are separately assessed and billed to Tenant, Tenant shall furnish to Landlord evidence of the payment thereof within ten (10) days after the date on which said Impositions would become delinquent. Such evidence shall be sent to each place designated in this Lease for the giving of notices to Landlord.

In the event any Impositions on the Premises are separately assessed but are billed to Landlord, Tenant shall pay the same to the appropriate taxing authority, on the later of (i) ten (10) days after receipt of a bill therefor from Landlord, or (ii) the date on which said Impositions would become delinquent.

In the event any Impositions on the Premises are not separately assessed but are assessed together with any taxes and assessments on a larger parcel which includes the Premises (the "**Main Parcel**"), Tenant shall pay to Landlord the Impositions on the Premises as levied or assessed by the applicable taxing authority, which shall be determined by reference to the records of said taxing authority, including, without limitation, the work sheets and documents compiled by such taxing authority or the applicable assessor's office. In the event it is not possible to determine the Impositions applicable to the Premises or Improvements thereto by reference to the foregoing records, Tenant shall pay to Landlord its proportionate share of such Impositions on the Main Parcel, which share shall be calculated as follows:

(i) As to any Impositions on land, Tenant's share shall be a fractional portion of the taxes and/or assessments assessed against the land comprising the

Main Parcel, the numerator of which shall be number of square feet of land included within the Premises and the denominator of which shall be the number of square feet of land included within the Main Parcel.

(ii) As to any Impositions on Improvements, Tenant's share shall be a fractional portion of the taxes and/or assessments assessed against all the improvements on the Main Parcel, the numerator of which shall be the appraised value of the buildings on the Premises and the denominator of which shall be the total appraised value of all buildings on the Main Parcel, as determined by an appraiser jointly selected by Landlord and Tenant.

In such event (A) the Impositions shall be paid by Tenant to Landlord on or before the later of (i) ten (10) days after receipt of a bill therefor from Landlord, or (ii) the date on which said Impositions would become delinquent, and (B) Landlord shall pay the Impositions and taxes and assessments on the Premises and such Main Parcel on or before the date any such taxes and assessments would become delinquent. If said Impositions are not paid by Tenant on or before such due date, Tenant shall pay to Landlord together with such taxes an amount equal to interest on such Impositions from the due date until paid at the Default Rate (as defined herein).

5.2 Alternative Taxes

If at any time during the Term the method of taxation prevailing at the commencement of the Term shall be altered so that any new tax, assessment, levy, imposition or charge, or any part thereof, shall be measured by or be based in whole or in part upon the Lease or the Premises, or the Rent, additional rent or other income therefrom and shall be imposed upon Landlord, then all such taxes, assessments, levies, impositions or charges, or the part thereof, to the extent that they are so measured or based, shall be deemed to be included within the term Impositions for the purposes thereof to the extent that such Impositions would be payable if the Premises was the only property of Landlord subject to such Impositions, and Tenant shall pay and discharge the same as herein provided in respect of the payment of Impositions. There shall be excluded from Impositions all federal income taxes, federal excess profit taxes, franchise, capital stock and federal or state estate or inheritance taxes of Landlord.

5.3 Evidence of Payment

Tenant shall deliver to Landlord duplicate receipts or photostatic copies thereof showing the payments of all Impositions to be paid by Tenant, within thirty (30) days after the respective payments evidenced thereby. Landlord shall deliver to Tenant duplicate receipts or photostatic copies thereof showing the payments of all Impositions to be paid by Landlord, within thirty (30) days after the respective payments evidenced thereby.

5.4 Right to Contest

Tenant, at its expense, may, with reasonable due diligence, contest (by appropriate legal proceedings conducted in good faith and in accordance with all applicable requirements imposed in connection with such proceedings), the amount, validity or application, in whole or part, of

any Imposition, provided that Tenant shall give Landlord prior written notice of such contest. Upon the termination of such proceedings, Tenant shall deliver to Landlord proof of the amount of the Impositions as finally determined in such proceedings. Tenant shall be entitled to any refund of any such Impositions and penalties or interest thereon which have been paid by Tenant. Tenant shall indemnify and hold harmless Landlord from responsibility, financial or otherwise, arising out of any such proceedings.

Article VI INSURANCE

6.1 Kinds; Amounts

As additional rent for the Premises, Tenant shall procure and maintain policies of insurance, at its own cost and expense, insuring:

(a) The improvements at any time situated upon the Premises against loss or damage by fire, lightning, wind storm, hail storm, aircraft, vehicles, smoke, explosion, riot or civil commotion as provided by the all risk form of property damage policy. The insurance coverage shall be for not less than 100% of the full replacement cost of such improvements with all proceeds of insurance payable to Tenant. The full replacement cost of improvements shall be determined every five (5) years by Tenant's insurance carrier;

(b) Landlord and Tenant from all claims, demands or actions for injury to or death of any person in an amount of not less than \$3,000,000, for injury to or death of more than one (1) person in any one (1) occurrence in an amount of not less than \$5,000,000, and for damage to property in an amount of not less than \$1,000,000 made by, or on behalf of, any person or persons, firm or corporation arising from, related to or connected with the Premises. Said insurance shall comprehend full coverage of the indemnity set forth in Section 13.1 hereof;

(c) Landlord and Tenant for loss or damage by boiler or internal explosion or break down of boilers; and

(d) Tenant from all worker's compensation claims.

6.2 Form of Insurance Policies

The aforesaid insurance shall be in companies and in form and substance reasonably satisfactory to Landlord. Landlord agrees that the foregoing coverages may be satisfied by a so-called "blanket" policy of insurance containing reasonable and customary deductibles. The aforesaid insurance shall not be subject to cancellation except after at least thirty days prior written notice to Landlord. Certificates of insurance evidencing such coverages, together with satisfactory evidence of payment of the premiums thereon, shall be deposited with Landlord at the Commencement Date, and renewals thereof shall be delivered to Landlord not less than ten days prior to the end of the term of each such coverage.

6.3 Mutual Waiver of Subrogation Rights

Tenant and Landlord shall each require that all policies of insurance carried by each of them covering their respective interests in any property in, on, and about the Premises or the Land contain or be endorsed with a provision by which the insurer shall waive its right of subrogation against Landlord and Tenant. Tenant shall not be liable to Landlord for any insurable damage to the Premises or MOB B or to other buildings of Landlord on the Land regardless of cause, and Landlord hereby releases Tenant from any such liability. Landlord shall not be liable to Tenant for any insurable damage to the Premises or MOB B or any of Tenant's property in or about MOB B or the Premises regardless of the cause, and Tenant hereby releases Landlord from any such liability. These mutual releases shall be applicable and in force only with respect to loss or damage covered by the releasing party's insurance and occurring during such time as the releasing party's applicable insurance policies contain a clause or endorsement to the effect that any such release shall not adversely affect or impair such policy or the right of the releasing party to recover thereunder. Landlord and Tenant each hereby agree to use their best efforts to cause their respective policies to contain such clause or endorsement, and to expressly advise the other if such clause or endorsement is not obtained.

Article VII DAMAGE OR DESTRUCTION

7.1 Damage and Destruction

Notwithstanding the provisions of Section 9.1 hereof, if MOB B shall be damaged by fire or other casualty (any of the foregoing being hereinafter called a "Casualty"), Tenant shall, within thirty (30) days of the date of such Casualty, cause an architect licensed in the State of Tennessee to deliver to both Landlord and Tenant in writing, such architect's good faith opinion (hereinafter, the "Architect's Opinion") as to (i) the length of time required to cause the Premises to be repaired and restored substantially to the same condition existing prior to the Casualty and (ii) the estimated cost of such repairs and restorations. If said Architect's Opinion indicates that such repairs and restoration shall take in excess of twelve (12) months from the expiration of the Notice Period (as hereinafter defined), then, subject to the rights of any Leasehold Mortgagee (as defined in Section 11.3), either Landlord or Tenant shall have the right to terminate this Lease as of the date of such Casualty upon giving written notice to the other party to such effect at any time during the period ending fifteen (15) days after such party's receipt of the Architect's Opinion (the "Notice Period"); provided, however, that in the event that Tenant elects to restore MOB B and proceeds to diligently restore the Premises (regardless of whether such restoration extends beyond twelve (12) months), then Landlord may not terminate this Lease; provided, further, however, that Tenant shall thereafter diligently pursue restoration of the Premises to a condition substantially the same or better than existed prior to the Casualty. In the event that this Lease is so terminated by either Landlord or Tenant, the net proceeds of insurance carried pursuant to the provisions of Subsection 6.1(a) above shall be paid to Tenant. In the event that Tenant elects to terminate this Lease within the Notice Period, Tenant shall pay the reasonable costs of demolition of MOB B, including removal of all casualty debris. In the event this Lease is not terminated, as aforesaid, Rent hereunder shall not abate and

Tenant shall remain liable for the payment of all Impositions payable by Tenant pursuant to Article V above during the period of Tenant's restoration of the Premises.

7.2 Tenant's Obligation to Rebuild

Unless this Lease is terminated as aforesaid, Tenant shall, subject to the conditions and limitations set forth below, repair and restore the Premises as nearly as commercially reasonably possible to their value, condition and character immediately prior to such damage or destruction, with reasonable promptness subject to reasonable delays for insurance adjustments and delays caused by matters beyond Tenant's reasonable control (and in no event shall Tenant have any liability to Landlord in the event such repairs and restoration shall take an excess of said twelve (12) month period, provided Tenant is proceeding with due diligence). Rent hereunder shall not abate and Tenant shall remain liable for the payment of Rent and all real estate taxes and other Impositions payable by Tenant pursuant to Article IV above during the period of such restoration.

7.3 Preconditions to Rebuilding

Before Tenant commences any repairs or restorations, Tenant shall furnish to Landlord satisfactory evidence of sufficient contractor's comprehensive general liability insurance covering Landlord, builders' risk insurance and workman's compensation insurance.

7.4 Payment for Rebuilding

All insurance proceeds collected under the insurance referred to in Subsection 6.1(a) above shall be held by Tenant, or deposited with the Leasehold Mortgagee to be made available to Tenant for repairs and restorations of the Premises required to be made by Tenant hereunder. The Leasehold Mortgagee shall pay out such funds from time to time upon the written direction of Tenant's architect, provided the Leasehold Mortgagee and Landlord shall first be furnished with waivers of lien, contractors and subcontractors sworn statements and such other evidence of costs and payments so that the Leasehold Mortgagee can verify that the amounts disbursed from time to time are represented by completed in-place work and that said work is free and clear of possible mechanic's liens. Any excess funds remaining with the Leasehold Mortgagee after the completion of such repair or restoration of the Premises shall be paid to Tenant. Rent hereunder shall not abate and Tenant shall remain liable for the payment of Rent and all real estate taxes and other Impositions payable by Tenant pursuant to Article IV above during the period of any restoration. Notwithstanding the foregoing to the contrary, in the event Tenant encumbers its interest in the Premises, insurance proceeds may be disbursed in accordance with the terms and provisions of such leasehold mortgage, and Leasehold Mortgagee may, in its reasonable discretion, direct that any such insurance proceeds be applied to the repayment of Tenant's indebtedness to Leasehold Mortgagee.

Article VIII CONDEMNATION

8.1 Material Taking

If any portion of the Premises shall be taken or condemned for a public or quasi-public use or purpose by any competent authority (hereinafter called a "**Taking**") and as a result thereof, it shall be economically unfeasible or illegal for Tenant or the Subtenants to use and occupy the balance of the Premises for their intended purposes, then at the option of Tenant in such event, this Lease shall terminate upon delivery of possession of the applicable portion of the Premises to the condemning authority. Landlord and Tenant shall share in any condemnation award or any judgment for damages caused by such Taking (hereinafter called the "**Award**"), with Landlord being allocated the fair market value of its fee simple interest in the Premises "subject to" the Lease, including its interest as landlord under this Lease and reversionary interest in MOB B and the other improvements located on the Premises (the "**Landlord's Interest**"), and Tenant being allocated the fair market value of its leasehold estate and its interest in MOB B and any improvements to the Premises paid for by Tenant, subject to Landlord's reversionary interest therein (the "**Tenant's Interest**").

8.2 Partial Taking

Unless this Lease shall be terminated as aforesaid, Tenant shall, with reasonable promptness (subject to delays covered by matters beyond Tenant's reasonable control), cause the remainder of the Premises to be repaired and restored to a complete architectural unit as nearly as commercially reasonably possible to their value, condition and character immediately prior to such taking, provided that Tenant shall comply with the provisions of Section 7.2 above. For such purposes, in the event that Tenant encumbers its interest in the Premises, the full amount of the Tenant's Interest in the Award will be deposited with the Leasehold Mortgagee, and Leasehold Mortgagee shall disburse such Award to be applied towards the cost of such repairs and restorations in accordance with the procedures set forth in Section 7.3 above. Any portion of the Tenant's Interest in the Award that shall not have been expended for such repairs or restorations shall be paid to Landlord in respect of Landlord's Interest and to Tenant in respect of Tenant's Interest. Notwithstanding the foregoing to the contrary, in the event Tenant encumbers its interest in the Premises, the Tenant's Interest in the Award shall be disbursed in accordance with the terms and provisions of such leasehold mortgage, and Leasehold Mortgagee may, in its reasonable discretion, direct that the Tenant's Interest in the Award be applied to the repayment of Tenant's indebtedness to Leasehold Mortgagee.

Article IX MAINTENANCE; IMPROVEMENTS

9.1 Maintenance

Tenant shall keep and maintain the Premises, including both interior and exterior of MOB B, the heating ventilating and air conditioning equipment, the parking area and the roof, in good condition and repair, in full compliance with all health and police regulations in force and in conformity with the rules and regulations of fire underwriters or underwriters' fire prevention

engineers. Tenant shall further keep and maintain the improvements at any time situated upon the Premises and all sidewalks, parking areas and areas adjacent thereto, safe, secure, clean and sanitary, specifically including, but not limited to, snow and ice clearance, planting and maintaining landscaping, in the same manner or a manner reasonably equivalent to or better than the manner that exists as of the date hereof, and conforming with the lawful and valid requirements of any governmental authority having jurisdiction over the Premises. As used herein, each and every obligation of Tenant to keep, maintain and repair shall include, without limitation, all ordinary and extraordinary nonstructural and structural repairs and replacements and compliance with all laws, ordinance regulations and orders whatsoever. Notwithstanding the foregoing to the contrary, Tenant shall not be prohibited from contracting with Landlord for the performance of maintenance and repairs on the Premises.

9.2 Improvements

In the event Tenant desires to make any improvements to the Premises, Tenant shall be allowed to do so only after receiving the specific written consent of Landlord to such improvements both as to design and scope, which consent may not be unreasonably withheld, conditioned or delayed. The improvements shall be constructed in a good and workmanlike manner by Tenant, solely at Tenant's expense. The construction of the improvements shall not be commenced until the delivery to Landlord of the following, which shall be reasonably satisfactory in form and substance to Landlord:

- (a) Site plan;
- (b) Performance and labor and material payment bonds, naming Landlord as a dual obligee;
- (c) Copies of the final plans and specifications for the improvements;
- (d) A construction contract or contracts providing for the complete construction of the improvements, including landscaping and paving, within twelve (12) months of the commencement of the construction thereof.

Tenant covenants and agrees with Landlord that any and all such improvements made on any portion of the Premises shall, at the conclusion of the term hereof, become and remain the property of Landlord. Tenant agrees that upon the request of Landlord it will, at its own expense, cause any such improvements not claimed by Landlord to be removed from the Premises.

Article X ASSIGNMENT; SUBLETTING

10.1 Tenant's Right to Assign Lease; Landlord's Right of First Refusal

Tenant shall have the right to assign the Lease as hereinafter provided. In the event that Tenant proposes to assign this Lease and convey MOB B to an unaffiliated third party assignee (a "Proposed Assignee"), Tenant shall give Landlord notice thereof, together with a term sheet

identifying the Proposed Assignee, the purchase price to be paid for Tenant's leasehold interest so assigned and Tenant's interest in MOB B, the proposed use of the Premises, and other economic terms (an "Assignment Proposal"). Landlord shall have thirty (30) days after receipt of the Assignment Proposal to elect to purchase Tenant's leasehold estate and MOB B upon the terms and conditions contained in the Assignment Proposal. If Landlord fails to exercise such right of first refusal within such thirty (30) days period, Tenant may sell and assign this Lease and convey MOB B to the Proposed Assignee upon terms and conditions substantially the same as, or more favorable to, Tenant than those contained in the Assignment Proposal. In the event of any such assignment, Tenant shall be relieved from any liability arising under this Lease from and after the date of such assignment. Tenant may assign this Lease to any affiliate of Tenant without triggering Landlord's right of first refusal, provided that upon any such assignment, Tenant shall remain liable hereunder. Any foreclosure or delivery of a deed-in-lieu of foreclosure in favor of a Leasehold Mortgagee shall not be subject to the provisions of this Section.

10.2 Tenant's Right to Sublease; Landlord's Right of First Refusal

Tenant shall have the right to sublet all or any portion or portions of the Premises as hereinafter provided. In the event that Tenant proposes to sublet the Premises to an unaffiliated third party Subtenant (a "Proposed Subtenant") Tenant shall give Landlord notice thereof, together with a term sheet identifying the Proposed Subtenant, its use of the premises, term, the rental rate and other economic terms (a "Lease Proposal"). Landlord shall have twenty (20) days after receipt to approve or disapprove such Lease Proposal. If Landlord fails to disapprove the Lease Proposal within such period, the Lease Proposal shall be deemed approved. If Landlord disapproves such Lease Proposal within such time period in writing, Landlord shall be obligated to sublease such portion of the Premises on the same terms and conditions as to which Tenant and such Proposed Subtenant shall have agreed in the Lease Proposal; provided, however, that the term of such subtenancy shall commence from the date the Office Lease (as hereinafter defined) for such Proposed Subtenant was to have commenced and shall terminate on the commencement date of an Office Lease with a Proposed Subtenant acceptable to Tenant and Landlord. Tenant shall require any such subtenant may not compete with services provided by Landlord, except with Landlord's prior written consent.

10.3 Rights of Subtenants

Notwithstanding anything herein contained to the contrary, Landlord acknowledges that Tenant is using the Premises as a medical office center and that space in MOB B will be leased by Tenant to others (hereinafter referred to individually as a "Subtenant", and collectively as the "Subtenants") for various uses consistent with the operation of the Premises as medical office center and in accordance with Section 2.2 herein. All Subtenants will be occupying portions of the Premises (hereinafter referred to as the "Tenant Spaces") pursuant to the terms of a lease between the Subtenants and Tenant which need not disclose that it is a sublease (each, an "Office Lease"). Tenant agrees to include in all of its Office Leases the provisions of Article II of this Lease. Notwithstanding anything herein contained to the contrary, Landlord hereby agrees for the benefit of any Subtenant that upon either the expiration of this Lease or a default by Tenant which will empower Landlord to terminate this Lease or Tenant's right to possession, that, so

long as the Subtenant is not in default under the terms, conditions or provisions of its Office Lease and so long as Subtenant agrees to attorn to Landlord, no action by Landlord shall terminate or in any manner affect the rights of the Subtenant under the Office Lease and that Landlord and all those claiming by, through or under Landlord agree (i) to recognize the Office Lease and the Subtenant's right to possession of a portion of the Premises under the Office Lease, provided the provisions of Article II of this Lease have been included in such Office Lease, and (ii) to accept the Office Lease and to perform the obligations of Tenant accruing after Landlord succeeds to the interest of Tenant in the Premises as if Landlord was the original landlord under the Office Lease. Landlord, at the request of Tenant, agrees to promptly execute such documents and instruments as may be reasonably required to effectuate the terms and provisions of this Section 10.3. Tenant, at the request of Landlord, agrees to use its best efforts to cause all Subtenants to execute such documents and instruments as may be reasonably required by Landlord to effectuate the terms and provisions of this Section 10.3. Landlord acknowledges and agrees that Landlord has reviewed and approved Tenant's form of Office Lease, and will not unreasonably withhold, condition or delay its consent to any commercially reasonable amendments to Tenant's form of Office Lease in the future, provided the provisions of Article II of this Lease have been included in such Office Lease.

Article XI LIENS; ENCUMBRANCES

11.1 Encumbering Title.

Tenant shall not do any act which shall in any way encumber the title of Landlord in and to the Premises, nor shall the interest or estate of Landlord in the Premises be in any way subject to any claim by way of lien or encumbrance, whether by operation of law or by virtue of any express or implied contract by Tenant. Any claim to, or lien upon, the Premises arising from any act or omission of Tenant shall accrue only against the leasehold estate of Tenant and shall be subject and subordinate to the paramount title and rights of Landlord in and to the Premises.

11.2 Tenant's Right to Obtain Financing.

At any time and from time to time during the Lease Term, Tenant shall have the sole responsibility for obtaining, and the right and privilege to obtain, and shall be entitled to all proceeds of, all financing (including, without limitation, interim, permanent, capital improvements, and equity) for the Premises and MOB B, or any part thereof, and all refinancing of all or any part of such financing (interim, permanent, capital improvements, and equity), subject to the terms and conditions of this Article XI.

11.3 Limitations on Financing.

Tenant's rights to obtain such financing and refinancing shall be subject only to the following conditions:

- (a) The Person providing any such financing or refinancing (sometimes herein called a "**Leasehold Mortgage**") shall agree that Landlord shall not be liable for the payment of such indebtedness or the performance of any of the covenants contained in

the documents securing payment thereof, and that in the event of default in payment or performance thereof, the Leasehold Mortgagee will look solely to Tenant's interest in the Premises and MOB B for satisfaction of the indebtedness thereby secured; provided, however, that the above provisions shall not be deemed to exculpate Landlord from any liability it may ever have to such Leasehold Mortgagee, as the successor-in-interest of the Tenant hereunder, by reason of Landlord's covenants, obligations, and warranties set forth herein, including, but not limited to, Landlord's warranty of title to the Premises.

(b) The Leasehold Mortgagee providing any such financing or refinancing shall agree to give Landlord written notice of any default by Tenant thereunder and time to cure such default prior to the exercise of any remedies such Leasehold Mortgagee may have with respect to the Premises and MOB B as a result of such default, which notice and time-to-cure periods shall not be less than the notice and time-to-cure periods granted to Tenant under the documentation evidencing such financing, but which may run concurrently therewith.

11.4 Rights of Leasehold Mortgagee.

(a) In addition to the financing or refinancing permitted pursuant to Section 11.2 hereof, Tenant shall have the right at any time and from time to time, without Landlord's consent, to mortgage, pledge, grant deed(s) of trust, or otherwise encumber the leasehold estate created hereby and all or any portion of the right, title, and interest of Tenant hereunder, and to assign, hypothecate, or pledge the same, as security for the payment of any debt to any Leasehold Mortgagee; provided that no Leasehold Mortgagee, trustee, or other Person claiming by, through, or under any instrument creating any such encumbrance on the leasehold estate created hereby shall by virtue thereof acquire any greater right in the Premises than Tenant then had under this Lease, except for the rights expressly granted to such Leasehold Mortgagee, trustee, or other Person under the terms of this Lease; and provided, further, that such Leasehold Mortgage, and the indebtedness secured thereby, shall at all times be and remain subject to all of the conditions, covenants, and obligations of this Lease and to all of the rights of Landlord hereunder. As to any such Leasehold Mortgage in favor of a Leasehold Mortgagee, Landlord consents to provisions therein, at the option of Tenant, (i) for an assignment of Tenant's share of the net proceeds from any award or other compensation resulting from a total or partial taking as set forth in Article VIII of this Lease, (ii) that a default by Tenant under this Lease shall constitute a default under any such Leasehold Mortgage, (iii) for an assignment of Tenant's right, if any, to terminate, cancel, modify, change, supplement, alter, or amend this Lease, (iv) for an assignment of any sublease to which any such Leasehold Mortgage is subordinated, subject to the rights of Landlord hereunder, and (v) effective upon any default in any such Leasehold Mortgage, (A) for the foreclosure of the Leasehold Mortgage pursuant to a power of sale or by judicial proceedings or other lawful means and the subsequent sale of the leasehold estate to the purchaser at the foreclosure sale and a sale by such purchaser and/or a sale by any subsequent purchaser, (B) for the appointment of a receiver, irrespective of whether any Leasehold Mortgagee accelerates the maturity of all indebtedness secured by the Leasehold Mortgage, (C) for the rights of the Leasehold Mortgagee or the receiver to

enter and take possession of the Premises and MOB B, to manage and operate the same, to collect the subrentals, issues and profits therefrom (subject to the rights of Landlord hereunder), and to cure any default under the Leasehold Mortgage or any default by Tenant under this Lease, and (D) for an assignment of Tenant's right, title, and interest in and to the premiums for or dividends upon any insurance with respect to Premises, as well as in all refunds or rebates of Impositions or assessments upon or other charges against the Premises and MOB B, whether paid or to be paid.

(b) If at any time after the execution and recordation of any such Leasehold Mortgage, the Leasehold Mortgagee or trustee therein shall notify Landlord in writing that any such Leasehold Mortgage has been given and executed by Tenant, and shall at the same time furnish Landlord with the address to which it desires copies of notices to be mailed, Landlord hereby agrees that it will thereafter mail to such Leasehold Mortgagee or trustee at the address so given, duplicate copies of any and all notices in writing which Landlord may from time to time give or serve upon Tenant under and pursuant to the terms and provisions of this Lease.

(c) Upon a Leasehold Mortgagee's receipt of written notice of an event of default hereunder (a "Default Notice"), the Leasehold Mortgagee shall have the right, but not the obligation, to cure such Event of Default on behalf of Tenant, and Landlord shall not have the right to exercise any of its remedies granted under Section 17.1 of this Lease in the event that the Leasehold Mortgagee completes the cure of such event of default on or before the later to occur of (i) sixty (60) days following Leasehold Mortgagee's receipt of the Default Notice (thirty (30) days in the event of Tenant's failure to pay any amounts due Landlord under this Lease) and (ii) the expiration of the Tenant's cure period hereunder; provided, however, that if such event of default can be cured but cannot be cured within the time permitted, then Leasehold Mortgagee shall be permitted such additional time thereafter as is reasonably necessary to cure such event of default, provided that Leasehold Mortgagee is proceeding to cure such default continuously and diligently and in a manner reasonably satisfactory to Landlord (the "Leasehold Mortgagee's Cure Period"). Landlord agrees to accept Leasehold Mortgagee's cure of an Event of Default so long as that cure is in accordance with the requirements of this Lease.

11.5 New Lease with Leasehold Mortgagee Upon Termination.

If this Lease shall terminate for any reason prior to the expiration of the Lease Term and if Landlord shall obtain possession of the Premises and MOB B thereafter, Landlord agrees that any Leasehold Mortgagee shall have the right, for a period of sixty (60) days subsequent to such termination of this Lease, to elect to demand a new lease of the Premises of the character and, when executed and delivered and possession of the Premises is taken thereunder, having the effect hereinafter set forth. Such new lease shall be for a term to commence at such termination of this Lease and shall have as the date for the expiration thereof the same date stated in this Lease as the date for the expiration hereof. The rental thereof shall be at the same rate as would have been applicable during such term under the provisions of this Lease, had this Lease not so expired or terminated, and all the rents, covenants, conditions, and provisions of such new lease,

including, but not limited to, the conditional limitations set forth in this Lease, shall be the same as the terms, conditions, and provisions of this Lease. If any such Leasehold Mortgagee shall elect to demand such new lease within such sixty (60) day period, such Leasehold Mortgagee shall give written notice to Landlord of such election; and, thereupon, within thirty (30) days thereafter, such Leasehold Mortgagee shall, at the time of the execution and delivery of such new lease, pay to Landlord all rent which would have become payable hereunder by Tenant to Landlord to the date of the execution and delivery of such new lease, had this Lease not terminated, and which remain unpaid at the time of the execution and delivery of such new lease, and shall have cured Tenant's failure to comply with any terms, provisions, or covenants of this Lease, other than the payment of rent or other sums of money, which is capable of being cured. Any such new lease as contemplated in this Section 11.5 may, at the option of the Leasehold Mortgagee, be executed by a nominee of such holder, without the Leasehold Mortgagee assuming the burdens and obligations of Tenant thereunder beyond the period of its ownership of the leasehold estate created hereby. In connection with the execution and delivery of any such new lease of the Premises pursuant to this Section 11.5, Landlord shall also convey to such Leasehold Mortgagee (or its nominee or designee), by special warranty deed, bill of sale and other appropriate conveyancing documents, all improvements in the Premises, including MOB B.

11.6 Liability of Leasehold Mortgagee.

No Leasehold Mortgagee shall be or become liable to Landlord as an assignee of this Lease or otherwise until it expressly assumes by written instrument such liability, and no assumption shall be inferred or result from foreclosure or other appropriate proceedings in the nature thereof or as the result of any other action or remedy provided for by any mortgage or deed of trust or other instrument executed in connection with such Leasehold Mortgage or from a conveyance from Tenant pursuant to which the purchaser at foreclosure or grantee shall acquire the rights and interests of Tenant under the terms of this Lease.

11.7 Liens; Right to Contest

Tenant shall not permit the Premises to become subject to any mechanics', laborers' or materialmen's lien on account of labor or material furnished to Tenant or claimed to have been furnished to Tenant in connection with work of any character performed or claimed to have been performed on the Premises by, or at the direction or sufferance of, Tenant; provided, however, that Tenant shall have the right to contest in good faith and with reasonable diligence, the validity of any such lien or claimed lien if Tenant shall give to Landlord such security as may be deemed reasonably satisfactory to Landlord to insure payment thereof and to prevent any sale, foreclosure, or forfeiture of the Premises by reason of non-payment thereof.

Article XII UTILITIES

12.1 Utilities

Tenant shall purchase all utility services, including but not limited to fuel, water, sewer and electricity from the utility or municipality providing such service and shall pay for such

services when such payments are due. Notwithstanding the foregoing to the contrary, Tenant shall not be prohibited from contracting with Landlord for the supply of utility services to any improvements to the Premises.

Article XIII INDEMNITY; WAIVER

13.1 Tenant's Indemnification Obligation

Except with respect to damages: (i) covered by insurance carried by Landlord; (ii) resulting from the failure on the part of Landlord to perform or comply with any of the terms of this Lease; or (iii) resulting from the negligent or willful acts or omissions of Landlord or its agents and employees, Tenant will protect, indemnify and save harmless Landlord from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Landlord by reason of: (A) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Premises or any part thereof or the adjoining properties, sidewalks, curbs, streets or ways, resulting from any act or omission of Tenant or anyone claiming by, through, or under Tenant; (B) any failure on the part of Tenant to perform or comply with any of the terms of this Lease; or (C) performance of any labor or services or the furnishing of any materials or other personal property in respect of the Premises or any part thereof.

13.2 Landlord's Indemnification Obligation

Except with respect to damages: (i) covered by insurance carried by Tenant; (ii) resulting from the failure on the part of Tenant to perform or comply with any of the terms of this Lease; or (iii) resulting from the negligent or willful acts or omissions of Tenant or its agents and employees, Landlord will protect, indemnify and save harmless Tenant from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Tenant by reason of (A) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Premises or any part thereof or the adjoining properties, sidewalks, curbs, streets or ways arising prior to the Possession Date, or thereafter resulting from any act or omission of Landlord or anyone claiming by, through, or under Landlord; or (B) any failure on the part of Landlord to perform or comply with any of the terms of this Lease.

13.3 Waiver of Certain Claims

Except with respect to damages caused by Landlord's failure to perform or comply with any terms of this Lease or any negligence or willful acts or omissions of Landlord or its agents and employees, Tenant waives all claims it may have against Landlord for damage or injury to person or property sustained by Tenant or any persons claiming through Tenant or by any occupant of the Premises, or by any other person, resulting (i) from any part of the Premises or any of its improvements, equipment or appurtenances becoming out of repair, or (ii) from any accident on or about its improvements, equipment or appurtenances becoming out of repair, or

(iii) from any accident on or about the Premises, or (iv) directly or indirectly from any act or neglect of any person, including Landlord, at the Premises, in each case as described in clauses (i) through (iv) first arising or occurring after the Possession Date to the extent permitted by law.

**Article XIV
RIGHTS RESERVED TO LANDLORD**

14.1 Rights Reserved to Landlord

Without limiting any other rights reserved or available to Landlord under this Lease, at law or in equity, Landlord, on behalf of itself and its agents reserves the following rights, to be exercised at Landlord's election, to inspect the Premises at reasonable times. Landlord may enter upon the Premises for said purposes and may exercise any and all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of Tenant's use or possession of the Premises, and without being liable in any manner to Tenant, provided that notwithstanding the foregoing, in exercising such rights, Landlord shall use reasonable efforts to prevent any material disruption to the operations of Tenant or any Subtenant in the Premises.

14.2 Restrictions on Rezoning

Landlord agrees that it shall not cause or agree to any change in the zoning classification of the Premises that results in the use of MOB B being a non-conforming use.

**Article XV
QUIET ENJOYMENT**

15.1 Quiet Enjoyment

So long as Tenant is not in default under the covenants and agreements of this Lease, Landlord hereby covenants and agrees that Tenant's quiet and peaceable enjoyment of the Premises shall not be disturbed or interfered with by Landlord or by any person claiming by, through or under Landlord.

**Article XVI
SURRENDER**

16.1 Surrender

Upon the termination of this Lease whether by forfeiture, lapse of time or otherwise, or upon the termination of Tenant's right to possession of the Premises, Tenant will at once surrender and deliver up the Premises, together with all improvements thereon, to Landlord in good condition and repair, reasonable wear and tear and damage by fire or other Casualty excepted. Said improvements shall include all buildings and the plumbing, lighting, electrical, heating, cooling and ventilating fixtures and equipment and other articles of personal property used in the operation of the Premises (as distinguished from operations incident to the business of Tenant; it being expressly understood and agreed that such articles of personal property incident to Tenant's business shall remain the sole property of Tenant and are hereinafter referred

to as "Trade Fixtures"). All additions, hardware, non-Trade Fixtures and improvements, temporary or permanent, in or upon the Premises belonging to Tenant shall become Landlord's property and shall remain upon the Premises upon such termination of this Lease by lapse of time or otherwise, without compensation, allowance or credit to Tenant.

16.2 Removal of Tenant's Property

Upon the termination of this Lease by lapse of time, Tenant may remove Tenant's Trade Fixtures; provided, however, that Tenant shall repair any injury or damage to the Premises which may result from such removals. If Tenant does not remove Tenant's Trade Fixtures from the Premises prior to the end of the Term, however ended, Landlord may, at its option, remove the same and deliver the same to any other place of business of Tenant or warehouse the same, and Tenant shall pay the cost of such removal (including the repair of any injury or damage to the Premises resulting from such removal), delivery and warehousing to Landlord on demand, or Landlord may treat such Trade Fixtures as having been conveyed to Landlord with this Lease as a Bill of Sale, without further payment or credit by Landlord to Tenant.

16.3 Holding Over

Any holding over by Tenant of the Premises after the expiration of this Lease shall operate and be construed to be a tenancy from month to month only, at the same Rent and other charges payable hereunder immediately prior to the expiration or other termination of the Lease or Tenant's right to possession for the Term, provided, however, if Tenant shall retain possession of the Premises or any part thereof for in excess of thirty (30) days after the expiration or termination of the Term or Tenant's right to possession thereof, whether by lapse of time or otherwise, or at the election of Landlord expressed in a written notice to Tenant, and not otherwise, such holding over shall constitute a renewal of this Lease for one (1) year at one hundred twenty-five percent (125%) of the Rent payable immediately prior to the expiration or other termination of the Lease or Tenant's right to possession and upon all of the other covenants and agreements contained in this Lease. Nothing contained in this Section 16.3 shall be construed to give Tenant the right to hold over at any time and Landlord may exercise any and all remedies at law or in equity to recover possession of the Premises.

Article XVII DEFAULT; REMEDIES

17.1 Default

Tenant further agrees that any one (1) or more of the following events shall be considered events of default as said term is used herein, that is to say, if

(a) Tenant shall default in any payments of Rent or in any other payment required to be made by Tenant hereunder when due as herein provided and such default shall continue for ten (10) days after notice thereof in writing to Tenant; or

(b) Tenant shall default in any of the other covenants and agreements herein contained to be kept, observed and performed by Tenant, and such default shall continue

for thirty (30) days after notice thereof in writing to Tenant, provided, however, if such default is susceptible to cure but cannot, by the use of reasonable efforts, be cured within thirty (30) days, Landlord shall not exercise any of its remedies hereunder if and so long as (i) Tenant shall commence to cure such default within said thirty (30) day period, and (ii) thereafter Tenant is proceeding to cure such default continuously and diligently and in a manner reasonably satisfactory to Landlord; or

(c) Tenant shall abandon the Premises during the Term; or

(d) If any time during the Term there shall be filed by or against Tenant, or against any successor to Tenant then in possession, in any court pursuant to any petition in bankruptcy, alleging an insolvency, for reorganization, for the appointment of a receiver, or for an arrangement under the Bankruptcy Code, or if a similar type of proceeding shall be filed, and such proceeding is not dismissed within sixty (60) days; or

(e) Tenant shall file or admit the jurisdiction of the court and the material allegations contained in, any petition in bankruptcy, or any petition pursuant or purporting to be pursuant to the Federal bankruptcy laws as now or hereafter amended, or Tenant shall institute any proceedings or shall give its consent to the institution of any proceedings for any relief of Tenant under any bankruptcy or insolvency laws or any laws relating to the relief of debtors, readjustment of indebtedness, reorganization, arrangements, composition or extension, and such proceeding is not dismissed within sixty (60) days; or

(f) Tenant shall make any assignment for the benefit of creditors or shall apply for or consent to the appointment of a receiver for Tenant or any of the property of Tenant.

Upon the occurrence of any one (1) or more of such events of default, Landlord may at its election terminate this Lease or terminate Tenant's right to possession only, without terminating the Lease. Upon termination of this Lease or of Tenant's right to possession, Landlord may re-enter the Premises (with process of law) using such force as may be necessary, and remove all persons, fixtures, and chattels therefrom and Landlord shall not be liable for any damages resulting therefrom. Upon termination of the Lease, or upon any termination of Tenant's right to possession without termination of the Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and hereby grants to Landlord the full and free right, without demand or notice of any kind to Tenant (except as hereinabove expressly provided for), to enter into and upon the Premises in such event (with process of law) and to repossess the Premises as Landlord's former estate and to expel or remove Tenant and, except as provided in Section 10.1, any others who may be occupying or within the Premises without being deemed in any manner guilty of trespass, eviction, or forcible entry or detainer without incurring any liability for any damage resulting therefrom and without relinquishing Landlord's right to rent or any other right given to Landlord hereunder or by operation of law. Notwithstanding anything contained herein to the contrary, Landlord shall use reasonable efforts to mitigate its damages in the event of Tenant's default hereunder. Upon termination of the Lease, Landlord shall, subject to Landlord's duty to mitigate such damages, be entitled to recover as damages, all Rent and other sums due and payable by Tenant on the date of

termination, plus (i) an amount equal to the present value of the Rent and other sums provided herein to be paid by Tenant for the residue of the Term, less the present value of the fair rental value of the Premises for the residue of the Term (such present values to be computed on a per annum discount rate equal to the then current Prime Rate published in the Money Rates Section of *The Wall Street Journal*), and (ii) the cost of performing any other covenants to be performed by Tenant. If Landlord elects to terminate Tenant's right to possession only, without terminating the Lease, Landlord may, at Landlord's option, enter into the Premises, remove Tenant's signs and other evidences of tenancy, and take and hold possession thereof as hereinabove provided, without such entry and possession terminating the Lease or releasing Tenant, in whole or in part, from Tenant's obligations to pay the Rent hereunder for the full Term or from any of its other obligations under this Lease. Subject to Landlord's duty to mitigate its damages as aforesaid, Landlord shall relet all or any part of the Premises for such rent and upon terms as shall be satisfactory to Landlord (including the right to relet the Premises for a term greater or lesser than that remaining under the Term, and the right to relet the Premises as a part of a larger area, and the right to change the character or use made of the Premises). For the purpose of such reletting, Landlord may decorate or make any repairs, changes, alteration or additions in or to the Premises that may be necessary or convenient. If Landlord does not relet the Premises, Tenant shall continue to pay to Landlord when due the amount of the Rent, and other sums provided herein to be paid by Tenant for the remainder of the Term. If the Premises are relet and a sufficient sum shall not be realized from such reletting after paying all of the expenses of such decorations, repairs, changes, alterations, additions, the expenses of such reletting and the collection of the Rent accruing therefrom (including, but not by way of limitation, attorneys' fees and brokers' commissions), to satisfy the Rent herein provided to be paid for the remainder of the Term, Tenant shall pay to Landlord on demand the present value (as computed above) of any deficiency and Tenant agrees that Landlord may file suit to recover any sums falling due under the terms of this Section 17.1 from time to time.

17.2 Remedies Cumulative

No remedy herein or otherwise conferred upon or reserved to Landlord shall be considered to exclude or suspend any other remedy, but the same shall be cumulative and shall be in addition to every other remedy given by this Lease to Landlord and may be exercised from time to time and so often as occasion may arise or as may be deemed expedient.

17.3 No Waiver

No delay or omission of Landlord to exercise any right or power arising from any default shall impair any such right or power or be construed, taken or held to be a waiver of any such default or any acquiescence therein. No waiver of any breach of any of the covenants of this Lease shall be construed to be a waiver of any other breach or waiver, acquiescence in or consent to any further or succeeding breach of the same covenant. The acceptance by Landlord of any payment of Rent or other charges hereunder after the termination by Landlord of this Lease or Tenant's right to possession hereunder shall not, in the absence of an agreement in writing to the contrary by Landlord, be deemed to restore this Lease or Tenant's right to possession hereunder, as the case may be, but shall be construed as a payment on account, and not in satisfaction, of damages due from Tenant to Landlord.

17.4 Attorneys Fees

In the event that either party shall be required to engage legal counsel for the enforcement of any of the terms of this Lease, whether such employment shall require institution of suit or other legal services required to secure compliance on the part of Landlord or Tenant, the non-prevailing party shall be responsible for and shall promptly pay to the prevailing party the reasonable value of said attorneys fees, and any other expenses incurred as a result of such default.

**Article XVIII
MISCELLANEOUS**

18.1 Fee Mortgage

Landlord represents and warrants to Tenant that there are no existing mortgages or deeds of trust encumbering the Land as of the date hereof, and there will be no such mortgages or deeds of trust existing as of the Possession Date.

18.2 Estoppel Certificates

Landlord and Tenant shall at any time and from time to time upon not less than thirty (30) days prior written request from the other party execute, acknowledge and deliver to the requesting party, in form reasonably satisfactory to such requesting party, a written statement certifying, if true, that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), that neither party is in default hereunder, the date to which the rental and other charges have been paid in advance, if any, or such other accurate certification as may reasonably be required by such requesting party. It is intended that any such statement delivered pursuant to this Section 18.2 may be relied upon by any prospective purchaser or Leasehold Mortgagee, or any assignee or sublessee of Tenant and their respective successors and assigns.

18.3 Landlord's Right to Cure

In the event that Tenant shall fail to comply or comply with any of the terms of this Lease and such failure shall continue after the expiration of all applicable grace or cure periods, Landlord may, but shall not be obligated to, cure any default by Tenant (specifically including but not by way of limitations, Tenant's failure to obtain insurance, make repairs, or satisfy lien claims); and whenever Landlord so elects, all costs and expenses paid by Landlord in curing such default, including without limitation reasonable attorneys' fees, shall be so much additional rent due on the next rent date after such payment together with interest (except in the case of said attorneys' fees) at the lesser of (i) the highest rate then payable by Tenant in the State of Tennessee, or (ii) at the rate of ten percent (10%) per annum (the "**Default Rate**"), from the date of the advance to the date of repayment by Tenant to Landlord.

18.4 Amendments

None of the covenants, terms or conditions of this Lease, to be kept and performed by either party, shall in any manner be altered, waived, modified, changed or abandoned except by a written instrument, duly signed, acknowledged and delivered by the other party, and, in the event Tenant encumbers its interest in the Premises, the Leasehold Mortgagee.

18.5 Notices

All notices to or demands upon Landlord or Tenant desired or required to be given under any of the provisions hereof, shall be in writing. Any notice or demand from Landlord to Tenant shall be deemed to have been duly and sufficiently given three business days after a copy thereof has been mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Landlord: St. Mary's Health System, Inc.
900 East Oak Hill Avenue
Knoxville, Tennessee 37917
Attn: Chief Financial Officer
Facsimile: 865-545-6732

with a copy to: Legal Counsel
St. Mary's Health System, Inc.
900 East Oak Hill Avenue
Knoxville, Tennessee 37917
Facsimile: 865-545-8049

If to Tenant: Emory Development Partners, LLC
PMB 344
977 Seminole Trail
Charlottesville, Virginia 22901-2824
Attention: Norman Brinkman
Facsimile: 434-293-6256

provided, however, that either Landlord or Tenant may change the location at which it receives notices to another location within the United States of America upon not less than ten days notice to the other.

18.6 Short Form Lease

The parties agree to execute a Memorandum of Lease or a Short Form Lease for recording, containing the name of the parties, the legal description of the Premises, the Term and such other information as Tenant shall reasonably request.

18.7 Time of Essence

Time is of the essence of this Lease, and all provisions herein relating thereto shall be strictly construed.

18.8 Relationship of Parties

Nothing contained herein shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership, or of joint venture by the parties hereto, it being understood and agreed that no provision contained in this Lease nor any acts of the parties hereto shall be deemed to create any relationship other than the relationship of Landlord and Tenant.

18.9 Captions

The captions of this Lease are for convenience only and are not to be construed as part of this Lease and shall not be construed as defining or limiting in any way the scope or intent of the provisions hereof.

18.10 Severability

If any term or provision of this Lease shall to any extent be held invalid or unenforceable the remaining terms and provisions of this Lease shall not be affected thereby, but each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

18.11 Applicable Law

This Lease shall be construed and enforced in accordance with the laws of the State of Tennessee.

18.12 Covenants Binding on Successors

All of the covenants, agreements, conditions and undertakings contained in this Lease shall extend and inure to and be binding upon the heirs, executors, administrators, successors and assigns of the respective parties hereto, the same as if they were in every case specifically named, and wherever in this Lease reference is made to either of the parties hereto, it shall be hold to include and apply to wherever applicable, the heirs, executors, administrators, successors and assigns of such party. Nothing herein contained shall be construed to grant or confer upon any person or persons, firm, corporation or governmental authority, other than the parties hereto, their heirs, executors, administrators, successors and assigns, any right, claim or privilege by virtue of any covenant, agreement, condition or undertaking in this Lease contained.

18.13 Brokerage

Landlord and Tenant each represents and warrants that it has had no dealings with any broker or agent in connection with this Lease. Landlord and Tenant each covenants to pay, hold harmless and indemnify the other party from and against any and all cost expense or liability for

January 9, 2014

4:15pm

any compensation commissions and charges claimed by any broker or agent with whom such party has dealt with respect to the Lease or the negotiation thereof.

18.14 Landlord Means Owner

The term "**Landlord**" as used in this Lease, so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners at the time in question of the fee of the Premises, and in the event of any transfer or transfers of the title to such fee, and provided that such transferee shall assume each and every covenant and obligation of Landlord hereunder as of the date of the transfer of title (but not otherwise), Landlord herein named (and in case of any subsequent transfer or conveyances, the then grantor) shall be automatically freed and relieved, from and after the date of such transfer or conveyance of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed provided that any funds in the hands of such Landlord or the then grantor at the time of such transfer, in which Tenant has an interest shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provisions of this Lease, shall be paid to Tenant.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease the day and year first above written.

LANDLORD:

ST. MARY'S HEALTH SYSTEM, INC.

By: 

Title: C.O.O.

Date: 12-12-07

TENANT:

EMORY DEVELOPMENT PARTNERS,
LLC

By: 

Title: CHIEF MANAGER

Date: 12.12.07

EXHIBIT A

DESCRIPTION OF THE LAND

**EXHIBIT A
DESCRIPTION OF THE LAND**

**RGC Project #08008
Legal Description**

Situated in the Sixth Civil District of Knox County, Tennessee, and without the corporate limits of the City of Knoxville, Tennessee and being more particularly described as follows:

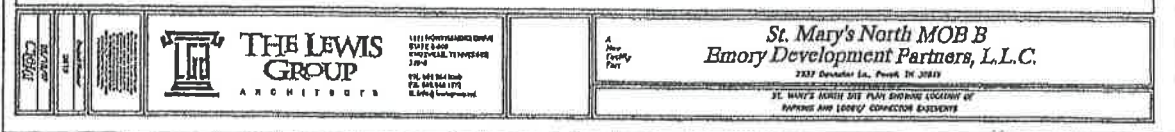
To find the POINT OF BEGINNING, commence on an iron pin located in the northern right of way of Emory Road corner common to St. Mary's Health System and Rutherford Commercial Park and being approximately 1174 feet Northeast of Conner Road; thence leaving Emory Road and with Rutherford Commercial Park and St. Mary's Health System North 43 degrees 33 minutes West 354.65 feet to an iron pin; thence North 43 degrees 33 minutes West 318.59 feet to an iron pin; thence North 43 degrees 38 minutes West 191.91 feet to an iron pin; thence North 43 degrees 35 minutes West 13.03 feet to a point; thence leaving Rutherford Commercial Park and across St. Mary's Health System North 46 degrees 25 minutes East 169.17 feet to the POINT OF BEGINNING; thence with the proposed building line the following 11 calls and distances:

North 13 degrees 37 minutes West 59.33 feet to a proposed building corner;
thence North 76 degrees 23 minutes east 10.85 feet to a proposed building corner;
thence North 13 degrees 37 minutes West 222.00 feet to a proposed building corner;
thence North 76 degrees 23 minutes East 113.00 feet to a proposed building corner;
thence South 13 degrees 37 minutes East 199.12 feet to a proposed building corner;
thence South 78 degrees 58 minutes East 24.77 feet to a proposed building corner;
thence South 58 degrees 19 minutes East 20.00 feet to a proposed building corner;
thence South 25 degrees 42 minutes West 12.00 feet to a proposed building corner;
thence south 76 degrees 15 minutes West 142.47 feet to a proposed building corner;
thence South 13 degrees 25 minutes East 48.06 feet to a proposed building corner;
thence South 76 degrees 35 minutes West 10.22 feet to the POINT OF BEGINNING containing 0.634 acres more or less.



EXHIBIT B
CAMPUS SITE PLAN

4:15pm



**FIRST AMENDMENT TO
GROUND LEASE**

THIS FIRST AMENDMENT TO GROUND LEASE (the "Amendment") made as of the 15th day of April, 2008 by and between ST. MARY'S HEALTH SYSTEM, INC., a Tennessee nonprofit corporation ("Landlord") and EMORY DEVELOPMENT PARTNERS, LLC, a Tennessee limited liability company ("Tenant").

WHEREAS, Landlord and Tenant entered into a certain Ground Lease as of the 12th day of December, 2007 (the "Ground Lease"); and

WHEREAS, the Ground Lease inadvertently included a legal description of the Premises in Exhibit A, rather than a legal description of the Land; and

WHEREAS, the Ground Lease further omitted Exhibit C, which as intended to be a description of the location of utility and communication facility easements, which the parties have determined is not necessary; and

WHEREAS, the parties desire to amend the Ground Lease to include the legal description of the Land as Exhibit A, to include the legal description of the Premises as Exhibit C, and to amend Sections 1.1 and 4.4.

NOW THEREFORE, in consideration of the mutual covenants and promises of the parties and other good and valuable consideration, the parties do hereby agree as follows:

1. Amendment to Section 1.1. Section 1.1 is hereby amended in its entirety to read as follows:

1.1 Grant; Premises.

Landlord is the owner of certain real property located in the County of Knox, State of Tennessee, legally described on Exhibit A attached hereto and made a part hereof (the "**Land**"). The Landlord wishes to lease that portion of the Land comprising the footprint of the "Physicians Plaza B" (the "**Premises**") as shown on the site plan attached hereto as Exhibit B (the "**Campus Site Plan**") to the Tenant. The legal description of the Premises is attached hereto as Exhibit C. For and in consideration of the agreement of Tenant to pay Rent (as hereinafter defined) and other sums herein provided and to perform the terms, covenants and conditions herein contained, the full performance and observance of which are hereby agreed to by Tenant, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Premises.

2. Amendment to Section 4.4. Section 4.4 is hereby revised in its entirety to read as follows:

4.4 Utility and Communication Easements.

Landlord hereby grants, conveys and encumbers the Land with perpetual non-exclusive easements for passage, construction, installation, maintenance, repair, replacement and use of utility lines, pipes, wires, conduits, flues, ducts, lines and other equipment including without limitation, electricity, gas, water, communications, sewer and storm drainage from the surrounding public thoroughfares to MOB B and the Premises. The location of such Utility and Communication Easements shall be subject to the approval of the Landlord, which approval shall not be unreasonably withheld, conditioned or delayed.

3. Amendment to Exhibit A. Exhibit A to the Ground Lease is hereby replaced with the Exhibit A attached to this First Amendment.

4. Addition of Exhibit C. Exhibit C attached hereto is hereby made a part of the Ground Lease.

5. Full Force and Effect. All provision of the Ground Lease not expressly amended herein shall remain in full force and effect in accordance with their terms.

[Remainder of Page Intentionally Left Blank]

January 9, 2014

4:15pm

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and date as stated above.

LANDLORD:

ST. MARY'S HEALTH SYSTEM, INC.

By: 

Title: CFU

TENANT:

EMORY DEVELOPMENT PARTNERS,
LLC

By: 

Norman Brinkman, Manager

Exhibit A
Legal Description of the Land

Situated in the Sixth Civil District in Knox County, Tennessee on the North side of Emory Road (SR 131) approximately 1174 feet East from the eastern R.O.W. of Conner Road; said point marking the southeast corner of Lot 4R of the Resubdivision of Rutherford Commercial Park as recorded in Instrument 200207120003737 in the Register's Office for Knox County, Tennessee.

Then with the line of the Rutherford Commercial Park Subdivision Lots 4R, 3, 2, and 1 the following calls:

North 43 degrees 33 minutes West – 354.65 feet to an iron pin;

North 43 degrees 33 minutes West – 318.54 feet to an iron pin;

North 43 degrees 38 minutes West – 191.87 feet to an iron pin;

North 43 degrees 35 minutes West – 160.17 feet to an iron pin in the line of J. S. Ridenour Properties LLC as recorded in Instrument 200111210040624;

Then with Ridenour North 46 degrees 26 minutes East – 104.60 feet to an iron pin marking the property of St. Mary's Health System acquired from Watson recorded in Instrument 200302060069420;

Then continuing with Ridenour North 43 degrees 42 minutes West – 1147.86 feet to an iron pin at a twenty five foot access easement in the line of Stooksbury;

Then with Stooksbury (as recorded in Deed Book 1795 page 119), crossing the easement North 46 degrees 29 minutes East – 408.99 feet to an iron pin;

Then with Stooksbury (recorded in Map Book 74L page 8) North 46 degrees 30 minutes East – 516.38 feet to an iron pin in the line of Hawkins (Deed Book 1979 page 996);

Then with Hawkins South 42 degrees 16 minutes East – 1150.08 feet to an iron pin in the line of Knoxville Plastiline LLC (recorded in Deed Book 2276 page 24);

Then with Knoxville Plastiline South 43 degrees 28 minutes East – 1186.89 feet to an iron pin at the northwest corner of Lot One of Overholt Subdivision as recorded in Instrument 200305070101876;

Then with Overholt South 43 degrees 31 minutes East – 250.90 feet to a point in the right-of- way of Emory Road;

Then with Emory Road the following four calls:

With a curve to the right having a radius of 4745.00 feet a chord of 104.98 feet bearing South 67 degrees 41 minutes West;

Then South 69 degrees 09 minutes West – 390.05 feet to an iron pin at Dannaher Lane;

Then crossing Dannaher Lane (a county road described below proposed for closing) South 69 degrees 09 minutes West 220.00 feet;

Then South 69 degrees 09 minutes West – 366.89 feet to the POINT OF BEGINNING containing 50.58 acres.

Being the same property conveyed to St. Mary's Health System, Inc. by deeds from (i) Sam Furrow of record in Deed Book 2095, page 1038, Register's Office for Knox County, Tennessee and (ii) Franklin Eugene Watkins and wife, Rose Kathryn Watkins, of record as Instrument No. 200302060069420, said Register's Office.

**Exhibit C
Legal Description of the Premises**

Situated in the Sixth Civil District of Knox County, Tennessee, and without the corporate limits of the City of Knoxville, Tennessee and being more particularly described as follows:

To find the POINT OF BEGINNING, commence on an iron pin located in the northern right of way of Emory Road corner common to St. Mary's Health System and Rutherford Commercial Park and being approximately 1174 feet Northeast of Conner Road; thence leaving Emory Road and with Rutherford Commercial Park and St. Mary's Health System North 43 degrees 33 minutes West 354.65 feet to an iron pin; thence North 43 degrees 33 minutes West 318.59 feet to an iron pin; thence North 43 degrees 38 minutes West 191.91 feet to an iron pin; thence North 43 degrees 35 minutes West 13.03 feet to a point; thence leaving Rutherford Commercial Park and across St. Mary's Health System North 46 degrees 25 minutes East 169.17 feet to the POINT OF BEGINNING; thence with the proposed building line the following 11 calls and distances:

North 13 degrees 37 minutes West 59.33 feet to a proposed building corner;
thence North 76 degrees 23 minutes east 10.85 feet to a proposed building corner;
thence North 13 degrees 37 minutes West 222.00 feet to a proposed building corner;
thence North 76 degrees 23 minutes East 113.00 feet to a proposed building corner;
thence South 13 degrees 37 minutes East 199.12 feet to a proposed building corner;
thence South 78 degrees 58 minutes East 24.77 feet to a proposed building corner;
thence South 58 degrees 19 minutes East 20.00 feet to a proposed building corner;
thence South 25 degrees 42 minutes West 12.00 feet to a proposed building corner;
thence south 76 degrees 15 minutes West 142.47 feet to a proposed building corner;
thence South 13 degrees 25 minutes East 48.06 feet to a proposed building corner;
thence South 76 degrees 35 minutes West 10.22 feet to the POINT OF BEGINNING containing 0.634 acres more or less.

Being the same property leased to Emory Development Partners, LLC by St. Mary's Health System, Inc. pursuant to a Ground Lease Agreement dated as of December 12, 2007.

The Premises is a portion of the Land described in Exhibit A, attached hereto (the "Land").

SECOND AMENDMENT TO
GROUND LEASE

THIS SECOND AMENDMENT TO GROUND LEASE (the "Second Amendment") made as of the 27th day of October, 2008 by and between ST. MARY'S HEALTH SYSTEM, INC., a Tennessee nonprofit corporation ("Landlord") and EMORY DEVELOPMENT PARTNERS, LLC, a Tennessee limited liability company ("Tenant").

WHEREAS, Landlord and Tenant entered into a certain Ground Lease as of the 12th day of December, 2007, as amended by a First Amendment to Ground Lease dated as of April 15, 2008 (collectively, the "Ground Lease"); and

WHEREAS, the Campus Site Plan attached to the Ground Lease as Exhibit B contained an error in the labeling of Physicians Plaza B; and

WHEREAS, the parties desire to amend the Ground Lease to amend and replace Exhibit B.

NOW THEREFORE, in consideration of the mutual covenants and promises of the parties and other good and valuable consideration, the parties do hereby agree as follows:

1. Amendment to Exhibit B. The Campus Site Plan attached as Exhibit B to the Ground Lease is hereby amended and replaced with the Exhibit B attached to this Second Amendment.

2. No Merger. The Ground Lease is amended by adding the following new Section 18.15:

18.15 No Merger.

Landlord and Tenant further covenant and agree that there shall be no merger of the Premises with the fee estate of the owner or owners of the Land, by reason of the fact that the Premises or any part thereof may be held by or for the account of any person or persons who shall be the owner or owners of such fee estate in the Land, unless and until all persons at the time having an interest in the fee estate in the Land and all persons, including a Leasehold Mortgagee, at the time having an interest in the Premises shall join in a written instrument effecting such merger and shall duly record such instrument in the public records.

3. Full Force and Effect. All provision of the Ground Lease not expressly amended herein shall remain in full force and effect in accordance with their terms.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the day and date as stated above.

LANDLORD:

ST. MARY'S HEALTH SYSTEM,
INC.

By: William K. Lord

Title: President + CEO

TENANT:

EMORY DEVELOPMENT
PARTNERS, LLC

By: Norman Brinkman, Manager

**January 9, 2014
4:15pm**

IN WITNESS WHEREOF, the parties have executed this Second Amendment as
of the day and date as stated above.

LANDLORD:

ST. MARY'S HEALTH SYSTEM,
INC.

By: _____

Title: _____

TENANT:

EMORY DEVELOPMENT
PARTNERS, LLC

By: _____

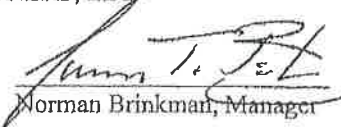
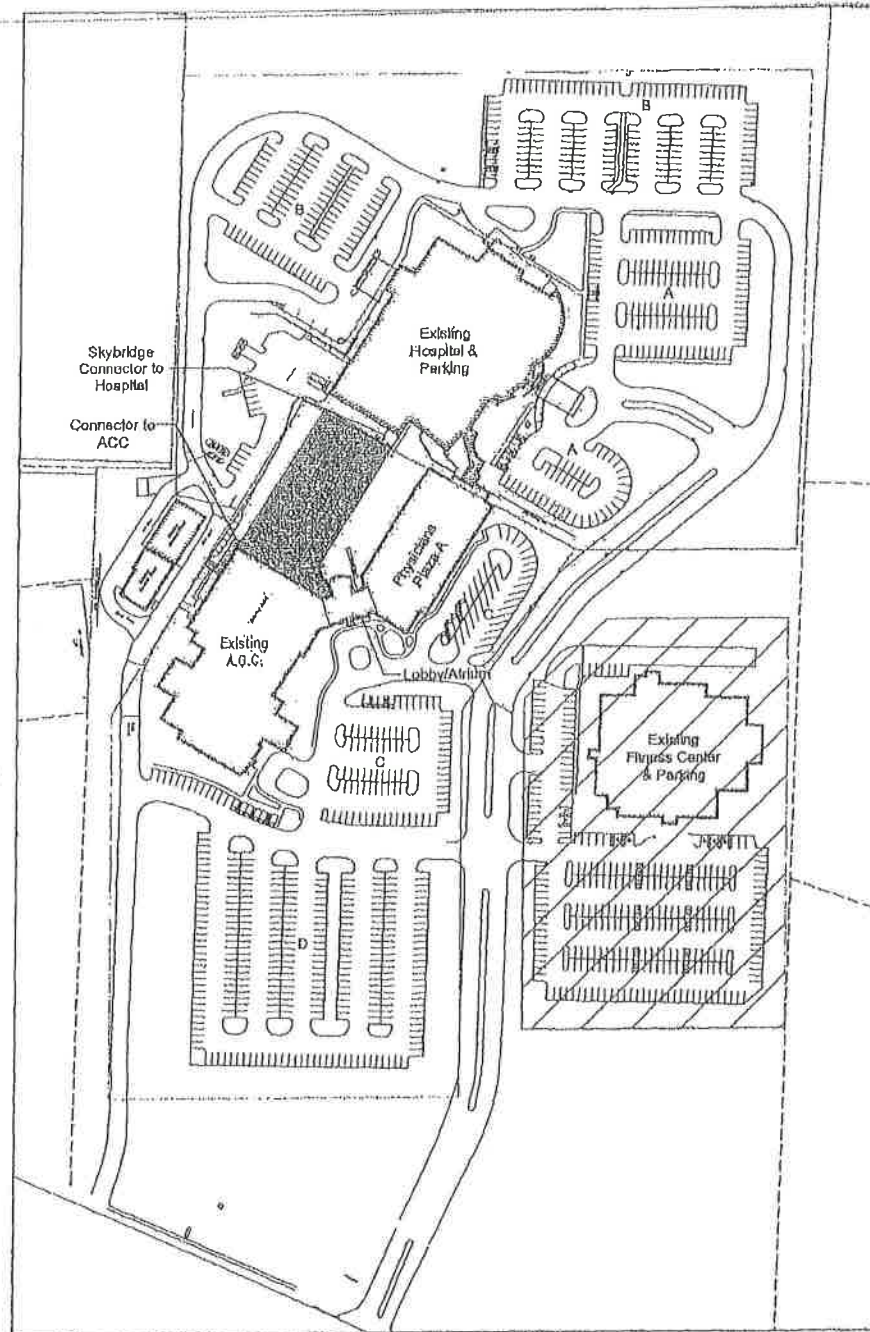

Norman Brinkman, Manager

Exhibit B



ST. MARY'S NORTH MOB B, THE PLAN SHOWING LOCATION OF PROPOSED AND EXISTING BUILDINGS



ST. MARY'S NORTH MOB B
 EMORY DEVELOPMENT PARTNERS, L.L.C.
 Knoxville, Tennessee

Site Plan
 00-01-08

Exhibit B

DESCRIPTION OF PREMISES

4:15pm

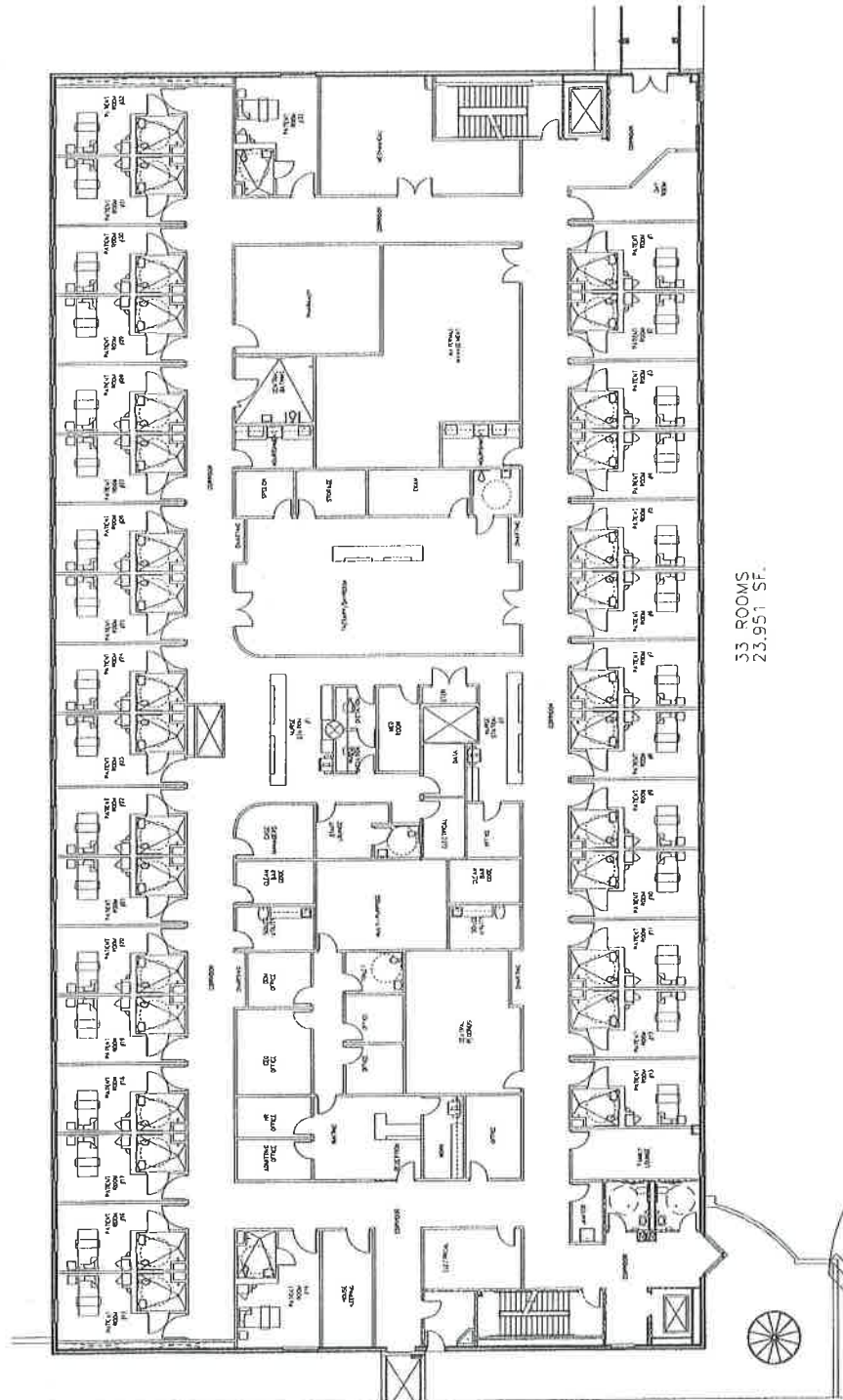


Exhibit C

LANDLORD'S WORK

Elevator installation or written documentation evidencing a variance from the applicable governmental authorities removing the requirement that a second elevator be installed

Relocation of the existing tenant located in the Premises, provided that the existing tenant may be removed up to 30 days after the Estimated Delivery Date while the remainder of the Premises shall be delivered on the Estimated Delivery Date, subject to the terms and conditions herein.

Tenant plans to allocate, at its sole expense, up to \$28 per Rentable SF to install a Variable Refrigerant Flow ("VRF") HVAC System to serve the Premises substantially similar to the quote received by Landlord and provided as Exhibit C-1. The VRF system shall be designed and constructed in accordance with applicable codes and regulations consistent with Tenant's intended use as a Long Term Acute Care Hospital. In the event that a VRF system exceeds \$28 per Rentable SF, Landlord shall, at Landlord's option, pay the premium expense associated with the VRF system or shall provide an air handler to accommodate required hospital air exchanges.

Delivery of the Premises in "as-is" condition, consistent with the original construction plans prepared by the shell architect. Upon request, Landlord will deliver to Tenant a full set of such architectural plans for the Building shell. The Premises shall be in "broom clean" condition, but without demolition of any existing improvements.

Note: Landlord's work shall commence upon receipt from Tenant of the following: (a) proof of issuance of a Certificate of Need; (b) an executed Ground Lessor Consent.

Exhibit C-1



Interstate Mechanical Contractors, Inc.

BUDGET

Unlimited
31-13 Unlimited
A(1,2,3) ; CMC;

TN-LIC # 00011994 Expiration 4-30-15
N.Carolina LIC # 21370 Expiration 12-
Classification; BC-2, 18, 20; MC-A,B, C,D; MU-
Classification; P,H-1, H-2-Class I

A. Kentucky LIC; Plumbing—M6231 HVAC—
M03852 Unlimited Expiration 1-31-14
3200 HENSON ROAD • P.O. BOX 50610 • KNOXVILLE, TENNESSEE 37950-0610
PHONE (865) 588-0180

FAX (865) 602-4130

TO: N.T.Brinkman, Inc

DATE: 11-26-13
ATTN: Benjamin Ochs

PH: 434-293-8004
Medical Floor with 23,951 sq ft

JOB: LTACH

LOCATION: Knoxville, TN
Email: beno@ntbrinkman.com

ENGINEER: Bernie McGraw

| | | |
|---|---|--|
| NOT RESPONSIBLE FOR DELAYS BY
MATERIAL OR EXTRA ACCEPTED
REASON OF STRIKES, ACCIDENTS OR
DISTINCT UNDERSTANDING THAT THEY
CAUSES BEYOND OUR CONTROL.
CANCELLATION. | PRICES SUBJECT TO CHANGE WITHIN 30 DAYS | ORDERS FOR SPECIAL
WITH THE
ARE NOT SUBJECT TO |
|---|---|--|

DESCRIPTION

We are pleased to propose the following BUDGET on the above referenced project in accordance with Phone conversation with Ben and information provided by Bernie McGraw

Following Plans received as bid documents; Floor plan of a 23,951 sq ft second floor.

We acknowledge the receipt of addendums; None

We propose to furnish labor and material for the following areas:

2. DIVISION 15-MECHANICAL

1. Furnish and install the following equipment:
 - a. 1-4,000 cfm Energy Recovery Unit
 - b. 3-20 ton of condensing units
 - c. 34-Cassette 4-way boxes
 - d. 14-Inline Boxes
 - e. ??-BS Boxes
2. Furnish and install ductwork as follows:
 - a. All ductwork will be installed per SMANCA requirements.
 - b. All ductwork will be galvanized square and or round.

- c. Inline boxes will be ducted to required space and terminates with a supply grills.
- d. 4,000 cfm will be ducted from roof to the 2nd floor, providing outside air to all required portions of this floor. All exhaust from restrooms and a few other areas will be ducted back to the energy recovery unit.
- e. All ductwork will be insulated with 2" flexible foil insulation with vapor barrier.
- 3. Refrigerant piping will be as follows:
 - a. All copper larger than 1-1/8" will be hard type L copper with sil-flos joints. All copper 7/8" or smaller will be soft rolled copper. All refrigerant lines will be insulated with 1/2" armofolex insulation.
 - b. Before starting, all refrigerant lines will be vacuumed down to 500 Mincom.
- 4. Roof work included in quote is as follows:
 - a. Provide new curb for energy recovery unit.
 - b. Provide a 4" channel frame around opening to help the support of the ERV.
 - c. Provide equipment rails and refrigerant opening curbs for the VRF equipment.
 - d. Roofing to flash in all new curbs is included in quote.
- 5. Controls for the VRF system will be as follows:
 - a. Master controller will be installed per owner's direction.
 - b. Each VRF box will have a wall thermostat to control heating and or cooling.
 - c. ERV will have smoke detectors installed and wired to shut system down upon activation. Wiring smoke detectors into fire alarm system is by others.
- 6. Test and balance will be provided by an independent agency.
- 7. Electrical wiring of VRF system is included in quote.
- 8. All equipment will be started and put into complete operation.
- 9. Owner to receive training on the operation of new system.

QUALIFICATIONS:

- 1. All plumbing services to five feet outside building
- 2. Pricing includes natural gas line out to generator
- 3. No site utilities are included in base bid.
- 4. All excavated spoils will be removed from site.
- 5. No exhaust fans provided for any isolation rooms if needed.
- 6. Removal of existing ceiling tile and or grid is NOT included.
- 7. Boxing the ductwork of the ERV from the roof thru the 3rd floor is NOT included in quote.
- 8. Cutting floor for duct penetration thru the 3rd floor is included in quote.
- 9.

EXCLUSIONS:

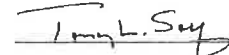
- | | |
|--|-------------------------------|
| 1. No Rock Excavation | |
| 8. No Bond | |
| 2. No Removal or relocation of unknown utilities | 9. No |
| Fire Protection or Site Fire Lines | |
| 3. No Temporary Utilities or Toilets | 10. No Asphalt or |
| Concrete Work | |
| 4. No Temporary Heating or Cooling | 11. No Electrical |
| 5. No Painting | 12. No Site Utilities in Base |
| Bid | |
| 6. No Meter or Tap Fees | 13. No Commissioning |
| 7. No Exterior Caulking Included | |

BASE BID: \$ 566,000.00

SUPPLEMENTAL- # 3

January 9, 2014
4:15pm

Very truly yours,
Signed:



Terry L.

Self; President

Now to answer your questions:

1. How accurate is this budget: Dealing with an existing building; and not even looking at it, anything could cause the price to be higher or lower. Under normal circumstance, the price above should be relative close to what needs to be down.
2. Just for budget purpose, I used a cassette in each patient room and one in the manager's office. I used inline boxes in the other areas so I could get ductwork, insulation and air distribution budgeted. Most of the time, there is all type of indoor units used on a normal job.
3. Structural steel is a guess in the dark. Nobody is going to guess at what is presently there compared to what may be needed. The structural steel frame I have estimated is to allow the ductwork to penetrate the roof without the decking to sag.

Exhibit D**TENANT IMPROVEMENTS**

1. Tenant Improvements. Tenant shall install, furnish and construct in a good and workmanlike manner, the Tenant Improvements substantially in accordance with the "Plans and Specifications" to be prepared in accordance with Section 2 below.

2. Space Plan and Specifications.

(a) Tenant has selected, and Landlord has approved, _____ (the "Architect") as the architect for the design of the Tenant Improvements. Tenant shall cause the Architect to prepare and deliver to Landlord draft floor plans and outline specifications for the Tenant Improvements. Landlord shall not unreasonably withhold or delay its approval of such floor plans and outline specifications. If Landlord has any objections or comments with respect to such **draft floor** plans and outline specifications, Landlord shall notify Tenant of such objections in writing within five (5) business days after Landlord's receipt thereof or Landlord shall be deemed to have approved such draft floor plans and outline specifications. If Landlord timely makes objections or comments, Tenant shall promptly cause appropriate modifications to be made to the floor plans and outline specifications, and shall promptly resubmit to Landlord the modified floor plan and outline specifications, which shall be subject to the same review, approval and modification procedures set forth above, except that the time period for Landlord's review shall be three (3) business days. The final floor plans and outline specifications for the Premises and the Tenant Improvements approved by Landlord shall hereinafter be referred to as the "Outline Specifications."

(b) Following approval of the Outline Specifications, Tenant shall cause the Architect to prepare any and all necessary construction documents for the Tenant Improvements, including, but not limited to, architectural, mechanical and electrical working drawings to scale, together with specifications necessary to complete the Tenant Improvements. The construction documents will be prepared based upon the Outline Specifications, and shall in all material respects be consistent with such Outline Specifications. If Landlord has any objections or comments with respect to such construction documents, working drawings and specifications, it shall notify Tenant and Architect in writing of such objections within five (5) business days after receipt thereof or Landlord shall be deemed to have approved such documents, drawings and specifications. If Landlord timely makes objections or comments, Tenant shall promptly cause appropriate modifications to be made to the construction documents and shall promptly resubmit to Landlord the modified construction documents, which shall be subject to the same review, approval and modification procedures as set forth above, except that the time period for Landlord's review shall be three (3) business days. The final construction documents, working drawings and specifications for the Tenant Improvements approved by Tenant and Landlord, shall be referred to as the "Plans and Specifications".

(c) Within one hundred fifty (150) days following the Effective Date, Tenant shall provide Landlord with copies of its Plans and Specifications as approved by the State Health Department.

3. Permits. Tenant shall obtain and maintain all authorizations, approvals and permits required by any governmental entity for the construction of the Tenant Improvements. Landlord shall cooperate with Tenant in obtaining such authorizations, approvals or permits.

4. Construction. After approval of the Plans and Specifications, Tenant will enter into a firm price construction contract (on American Institute of Architects ("AIA") Form A-107) with a contractor selected by Tenant and approved by Landlord. Thereafter, Tenant shall cause the Leasehold Improvements to be diligently constructed in accordance with the Plans and Specifications, in a good and workmanlike manner and in accordance with all applicable legal requirements and good construction practices.

5. Change Requests. Tenant may substitute materials (of equal or greater quality) and make non-material changes to the Plans and Specifications without Landlord's consent. Any material change to the Plans and Specifications shall require Landlord's consent, which consent shall not be unreasonably withheld, conditioned or delayed. Landlord shall respond to all change requests within three (3) business days after receipt of such request. Notwithstanding the foregoing, Landlord may not withhold its consent to any change to the Plans and Specifications required to obtain licensure, certification or accreditation of Tenant's long term acute care hospital.

6. Allowance.

(a) Landlord shall fund the costs incurred by Tenant with respect to the Tenant Improvements, including design, permitting and construction costs, up to an aggregate of \$1,670,525 (\$65.00 per rentable square foot) (the "Allowance").

(b) Tenant shall have the right to receive disbursements of the Allowance from Landlord on a monthly basis. To obtain a disbursement from the Allowance, Tenant shall submit to Landlord a written request specifying the amounts requested to be paid to Tenant, accompanied by copies of invoices or receipts from other design professionals, consultants, contractors or suppliers providing services, labor or materials in connection with the design and construction of the Tenant Improvements and the fit out of the Premises with cabling, wiring, furniture, fixtures and equipment for Tenant's use thereof.

(c) Landlord shall fund the amount requested by Tenant by check or wire within twenty (20) days following receipt of Tenant's request, provided that Landlord shall have no obligation to fund any amount in excess of the Allowance. All costs of the Tenant Improvements in excess of the TI Allowance, if any, shall be paid by Tenant as and when due.

(d) At Tenant's election, Tenant may apply all or any portion of the Allowance to the costs of Tenant's furniture, fixtures and equipment and/or Tenant's moving expenses.

(e) Within one hundred and eighty (180) days following the Effective Date, Landlord shall provide Tenant with an amortization schedule (the "TI Amortization Schedule") for Landlord's recovery of the Allowance over the Term of the Lease.

7. Demolition. Tenant acknowledges that it shall be responsible for demolition of existing improvements within the Premises.

8. Landlord Indemnification. Prior to the commencement of Tenant's work, Tenant shall provide Landlord with evidence of insurance in amounts satisfactory to Landlord in its reasonable discretion and naming Landlord and its property manager as additional insureds. Further, Landlord shall enter into a written agreement with Landlord and its property manager indemnifying them from and against any claims or losses arising out of Tenant's construction activities.

9. Coordination of Construction Activities. Tenant shall coordinate its construction activities with Landlord's property manager and shall use reasonable efforts to undertake such construction during normal business hours, or at such other times and in such manner as to not unreasonably disturb other tenants' use of the Building. Any alteration of utilities will need to be scheduled in advance through Landlord's property manager and at such times as other tenants are not in use of their space. From time to time, upon Landlord's request, Tenant agrees to meet with Landlord to discuss construction progress and any issues relating thereto.

EXHIBIT E**FORM GUARANTY**

THIS GUARANTY, dated as of January 2nd, 2014 (together with all amendments and supplements hereto, referred to as this "Guaranty"), is from SELECT MEDICAL CORPORATION, a Delaware corporation (herein, together with its successors and assigns, including, without limitation, any entity succeeding thereto by merger, consolidation or acquisition of its assets substantially as an entirety, referred to as "Guarantor"), to CHP KNOXVILLE PLAZA B MOB OWNER, LLC, a Tennessee limited liability company (herein, together with its successors and assigns, referred to as "Landlord").

WHEREAS, Landlord owns a Medical Office Building located at 7557-B Dannaher Drive, Powell, TN and known as North Knoxville Medical Center Physicians Plaza B (the "Host Facility"). The Host Facility includes a portion of the first floor of the Host Facility containing approximately 25,701 square feet of space (collectively, the "Premises").

WHEREAS, Tenant leases from Landlord and Landlord leases to Tenant the Premises pursuant to a Lease Agreement dated as of even date herewith, between Landlord and Tenant (the "Lease") (capitalized terms not defined herein shall have the meanings given in the Lease); and

WHEREAS, Tenant is a 100% owned subsidiary of Guarantor; and

WHEREAS, the execution and delivery of this Guaranty by Guarantor is an inducement to Landlord to enter into the Lease and Landlord has advised Guarantor that it is not willing to enter into the Lease unless this Guaranty is executed and delivered;

NOW, THEREFORE, in consideration of the premises, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees with Landlord as follows:

1. Guarantor unconditionally and irrevocably guarantees (a) the payment and performance by Tenant of all its obligations, covenants, agreements, terms and conditions under the Lease and (b) the prompt payment of all sums which may become payable by Tenant pursuant to the Lease in full when due in accordance with the provisions thereof. Guarantor agrees to pay to Landlord such reasonable and actual amounts as shall be sufficient to cover the cost and expense actually incurred in collecting such sums, or any part thereof, or of otherwise enforcing this Guaranty, including without limitation, in any case, reasonable attorneys' fees and disbursements. This Guaranty is a guaranty of payment and performance and not of collection.

2. The obligations, covenants, agreements and duties of Guarantor under this Guaranty shall in no way be affected or impaired by reason of the happening from time to time of any of the following, although without notice to or the further consent of Guarantor:

(a) the waiver by Landlord of the performance or observance by Tenant, Guarantor, or any other party of any of the agreements, covenants, terms or conditions contained in the Lease or this Guaranty;

(b) the extension, in whole or in part, of the time for payment by Tenant or Guarantor of any sums owing or payable under the Lease (provided, however, that if any such extension is expressly granted by Landlord, then Guarantor shall be entitled to the benefit of such extension);

(c) the modification or amendment, whether material or otherwise, of any of the obligations of Tenant under the Lease, whether the same be in the form of a new agreement or the modification or amendment of the existing Lease (any of the foregoing being a "Modification"), or of Guarantor under this Guaranty; provided, however, that (unless such Modification is required by law or on account of bankruptcy or insolvency) no Modification which has the effect of increasing the obligations of Guarantor hereunder shall be effective against Guarantor to the extent of such increase unless Guarantor shall be a party to, or consent to, such Modification; provided, further, that if any Modification is made without such consent of Guarantor, such Modification shall be ineffective as against Guarantor only to the extent the same shall increase the obligations of Guarantor under this Guaranty, it being expressly agreed that (even if such Modification has the effect of increasing the likelihood of a default by Tenant under the Lease) Guarantor shall remain liable to the full extent of this Guaranty as if such Modification had not been made;

(d) the doing or the omission of any of the acts (including, without limitation, the giving of any consent referred to therein) referred to in the Lease or this Guaranty;

(e) any failure, omission or delay on the part of Landlord to enforce, assert or exercise any right, power or remedy conferred on or available to Landlord in or by the Lease or this Guaranty, or any action on the part of Landlord granting indulgence or extension in any form whatsoever (except to the extent, if any, that such indulgence shall have been expressly granted by Landlord);

(f) the voluntary or involuntary liquidation, dissolution, sale of all or substantially all of the assets, marshalling of assets and liabilities, receivership, conservatorship, custodianship, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting Tenant or Guarantor or any of their assets;

(g) the inability of Landlord or Tenant, respectively, to enforce any provision of the Lease or this Guaranty, for any reason; or

(h) the inability of Tenant to perform, or the release of Tenant or Guarantor from the performance of any obligation, agreement, covenant, term or condition of Tenant under the Lease by reason of any law, regulation or decree, now or hereafter in effect.

3. In the event of the rejection or disaffirmance of the Lease by Tenant or Tenant's receiver pursuant to any law affecting creditor's rights, Guarantor will, and does hereby (without the necessity of any further agreement or act) assume all obligations and liabilities of Tenant under or arising out of the Lease, to the same extent as if Guarantor had been originally named the lessee under the Lease, and there had been no such rejection or disaffirmance; the Guarantor will confirm such assumption in writing at the request of Landlord, upon or after such rejection or disaffirmance. Guarantor, upon such assumption, shall have all rights of Tenant under the Lease and shall be entitled to a new lease on all of the terms and conditions of the Lease with respect to the unexpired portion of the Lease (to the extent permitted by law). Guarantor will execute and deliver such documents as Landlord may from time to time reasonably require to evidence such assumption, to confirm this Guaranty and to certify that Guarantor is not in default hereunder.

4. This Guaranty shall be construed in accordance with the laws of the state in which the Premises are located.

5. This Guaranty may not be modified or amended except by written agreement duly executed by Guarantor with the consent in writing of Landlord.

6. Guarantor shall provide Landlord with financial statements in accordance with Section 21(b) of the Lease.

7. All notices given pursuant to this Guaranty shall be in writing and shall be validly given when sent by a courier or express service guaranteeing overnight delivery and which will upon request provide a receipt of such delivery or by certified letter return receipt requested, and all notices shall be validly given when addressed as set forth below. If this Guaranty provides for a designated period after notice within which to perform any act, such period shall commence on the date of receipt or refusal of such notice. If this Guaranty requires the exercise of a right by notice on or before a certain date or within a designated period, such right shall be deemed exercised on the date of mailing of such notice pursuant to which such right is exercised. Notice shall be addressed as follows:

If to Landlord: CHP KNOXVILLE PLAZA B MOB OWNER, LLC
 450 South Orange Avenue, Suite 1200
 Orlando, FL 32801
 Attn: Director of CHP

with a copy to: Lowndes, Drosdick, Doster, Kantor & Reed, P.A.
 P.O. Box 2809
 Orlando, FL 32802-2809
 Attn: William T. Dymond, Esq.

If to Guarantor: Select Medical Corporation
 4714 Gettysburg Road
 Mechanicsburg, PA 17055
 Attn: General Counsel

Landlord and Tenant each may from time to time specify, by giving 15 days' notice to each other party, (a) any other address in the United States as its address for purposes of this Guaranty and (b) any other person or entity in the United States that is to receive copies of notices, offers, consents and other instruments hereunder.

8. Guarantor hereby irrevocably submits to the jurisdiction of any state or federal court sitting in the state where the Premises is located in any action or proceeding arising out of or relating to this Guaranty, and Guarantor hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such state or federal court. Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner permitted by law. Nothing in this Section shall affect the right of Landlord to serve legal process in any other manner permitted by law or affect the right of Landlord to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction.

9. In case any one or more of the provisions hereof or of the Lease shall be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Guaranty shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

10. This Guaranty shall be binding upon, and inure to the benefit of and be enforceable by, the parties hereto and their respective assigns.

This Guaranty is being executed as a document under seal on the date set forth above

SELECT MEDICAL CORPORATION

By: James J. Talalai
Name: _____
Title: JAMES J. TALALAI
VICE PRESIDENT

2014 JAN 9 PM 4:00

SUPPLEMENTAL

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Davidson

NAME OF FACILITY: Select Specialty Hospital-North Knoxville
CN #1312-047

I, Paul W. Ambrosius, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.


Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 9th day of January, 2014, witness my hand at office in the County of Davidson, State of Tennessee.


NOTARY PUBLIC

My commission expires March 8, 2016.

HF-0043

Revised 7/02





State of Tennessee
Health Services and Development Agency

Frost Building, 3rd Floor, 161 Rosa L. Parks Boulevard, Nashville, TN 37243

www.tn.gov/hsda Phone: 615-741-2364/Fax: 615-741-9884

December 11, 2013

John Wellborn
Development Support Group
4219 Hillsboro Road, Suite #203
Nashville, Tennessee 37215

RE: Certificate of Need Application CN1312-047
Select Specialty Hospital-North Knoxville

Dear Mr. Wellborn:

This will acknowledge our December 6, 2013, receipt of your application for the relocation of thirty-three (33) long term acute care beds from 900 East Oak Hill Avenue, 4th floor, Knoxville (Knox County), TN to leased space at North Knoxville Medical Center, Physicians Plaza B, First Floor, 7557-B Dannaher Drive, Powell (Knox County), TN.

Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 4:00 p.m., Wednesday December 18, 2013. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

1. Section A, Applicant Profile, Item 4

Please submit documentation from the Tennessee Secretary of State web-site that verifies Select Specialty Hospital is an active corporation.

Please clarify the relationship between Intensia Hospital of Knoxville, Inc. and the applicant.

Select Medical Corporation appears to have several lines of business such as long-term acute care, medical rehab, physical therapy, and business solutions. Please provide a general overview of these services and how many of each type are located in each state in which they operate.

Please provide an ownership chart for the applicant that includes the percentage of ownership.

2. Section A, Applicant Profile, Item 6

The Agency will need a deed, a purchase agreement, lease agreement, option to lease or other legal document which demonstrates the applicant has a legitimate legal interest in the property on which to locate the project. A fully executed (signed by both parties) Option to Purchase must at least include the expected purchase price, a description of the property with address and the anticipated date of closing. A fully executed Option to Lease must at least include the expected term of the lease and the anticipated lease payments.

3. Section A, Applicant Profile, Item 13

The applicant notes United Community Healthcare (UHC) Plan is not contracted, but the applicant has pursued a contract. Please clarify what the current barriers are in obtaining a TennCare contract with UHC.

Please also clarify why there is not a contract with TennCare Select.

Where are patients in the proposed service area who are enrolled in UHC and TennCare Select referred to for LTAC services?

4. Section B, Project Description, Item I.

The applicant has requested consent calendar for this project. Please address the reason consent calendar is being requested as it relates to each of the following: 1) Need, 2) Economic Feasibility, and the 3) Orderly development to health care.

What is the facility age of the current fourth floor LTAC leased space at 900 East Oak Hill Avenue, Knoxville?

Please compare the current lease expense at the existing location to the lease expense at the new proposed location.

Is there a 25% threshold limit that applies to the number of patients admitted from the proposed new location at North Knoxville Medical Center? When responding please explain the 25% threshold limit.

Please complete the following table for the source of LTAC admissions of Select Specialty Hospital-North Knoxville in 2012.

| Admission Source | Admissions | % Total |
|------------------------------|------------|---------|
| Physicians Reg. Hospital | | |
| North Knoxville Medical Ctr. | | |

| | | |
|-------------------------------|--|--|
| Other Hospitals (please list) | | |
| Nursing Homes | | |
| Patient Homes | | |
| Other | | |
| | | |

Does the applicant expect the patient admission mix to change at the new location? If so, how will it change?

5. Section B, Item II.A.

Please submit a square footage and costs per square footage chart.

6. Section B, Item II.D.

What are the dimensions of the private rooms at the new proposed site? What are the LTAC private room dimensions recommended by AIA?

7. Section B, Project Description Item III.A.(Plot Plan)

The plot plan appears to be labeled incorrectly in the attachments. Please revise tab.

There appears to be limited parking areas in the rear of the building next to the proposed LTAC, please clarify. Also, is there a covering for patient access near the proposed LTAC site?

8. Section B, Project Description Item III.B.1

Table five of mileage and drive times are noted. However, please clarify why the distance from Oak Ridge (Anderson County) to the proposed and current site is different (19.4 miles vs. 26.4), but the traveling time is the same (31 minutes).

9. Section C, Economic Feasibility, Item 4. (Projected Data Chart)

What is included in Ancillary Patient Services line expense of \$2,167,396 in Year 2015?

Please clarify why the equipment rental expenses and corporate services expenses are the exact amount in Year 2015 (\$238,700) and 2016 (\$241,175).

Please clarify if the applicant will be paying for construction costs in addition to lease expense.

Please explain why net operating income is projected to fall from \$1,103,710 in Year 2013 at the current location, to \$235,641 in Year One at the proposed new location.

10. Section C, Economic Feasibility, Item 10.

Please provide the most recent audited financial statements for Select Medical Corporation.

11. Section C, Orderly Development, Item 1.

Please list the service area hospitals the applicant has transfer agreements and which ones they do not.

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." **For this application, the sixtieth (60th) day after written notification is Friday, February 7, 2014. If this application is not deemed complete by this date, the application will be deemed void.** Agency Rule 0720-10-.03(4)(d)(2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Resubmittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has

Mr. John Wellborn
December 11, 2013
Page 5

been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,

A handwritten signature in cursive script, reading "Phillip M. Earhart". The signature is written in dark ink and is positioned below the word "Sincerely,".

Phillip M. Earhart
HSD Examiner

PME

Enclosure



State of Tennessee

Health Services and Development Agency

Andrew Jackson State Office Building, 9th Floor, 500 Deaderick Street
Nashville, TN 37243

www.tn.gov/hsda Phone: 615-741-2364/Fax: 615-741-9884

December 20, 2013

John Wellborn
Development Support Group
4219 Hillsboro Road, Suite #203
Nashville, Tennessee 37215

RE: Certificate of Need Application CN1312-047
Select Specialty Hospital-North Knoxville

Dear Mr. Wellborn:

This will acknowledge our December 16, 2013, receipt of supplemental information to your application for the relocation of thirty-three (33) long term acute care beds from 900 East Oak Hill Avenue, 4th floor, Knoxville (Knox County), TN to leased space at North Knoxville Medical Center, Physicians Plaza B, First Floor, 7557-B Dannaher Drive, Powell (Knox County), TN.

Several items were found which need clarification or additional discussion. Please review the list of questions below and address them as indicated. The questions have been keyed to the application form for your convenience. I should emphasize that an application cannot be deemed complete and the review cycle begun until all questions have been answered and furnished to this office.

Please submit responses in triplicate by 4:00 p.m., Thursday December 26, 2013. If the supplemental information requested in this letter is not submitted by or before this time, then consideration of this application may be delayed into a later review cycle.

1. Section A, Applicant Profile, Item 6

The applicant's response that documentation of legal interest in the site for the relocated LTACH will be submitted under separate cover is noted.

2. Section B, Project Description, Item I.

The applicant stated that no more than 25% of an LTACH's Medicare admissions can come from any single provider location. The chart by admission source submitted indicated that 36.91% of the 2012 Medicare admissions to Select Specialty Hospital-North Knoxville were from Physicians Regional Medical Center. Please explain.

The applicant has stated there will be no significant change in referral sources or case mix. Wouldn't the applicant expect an increased number of referrals from North

Knoxville Medical Center and a reduced number of referrals from Physicians Regional Medical Center?

3. Section B, Item II.A.

The applicant has stated the new lease will be for 25,107 rentable square feet; however the Square Footage Chart lists a total of 23,624 square feet. Please explain.

4. Section B, Project Description Item III.A.(Plot Plan)

The applicant has stated that all patients coming to the LTACH for admission will first come by ambulance transport to North Knoxville Medical Center's Emergency Department. What is the admission process for North Knoxville Medical Center patients being discharged to the LTACH?

5. Section C, Economic Feasibility, Item 10.

Your response to this item is noted. If available, please provide the audited financial statements for Select Specialty Hospital-North Knoxville.

In accordance with Tennessee Code Annotated, §68-11-1607(c) (5), "...If an application is not deemed complete within sixty (60) days after written notification is given to the applicant by the agency staff that the application is deemed incomplete, the application shall be deemed void." **For this application, the sixtieth (60th) day after written notification is Friday, February 7, 2014. If this application is not deemed complete by this date, the application will be deemed void.** Agency Rule 0720-10-.03(4)(d)(2) indicates that "Failure of the applicant to meet this deadline will result in the application being considered withdrawn and returned to the contact person. Resubmittal of the application must be accomplished in accordance with Rule 0720-10-.03 and requires an additional filing fee." Please note that supplemental information must be submitted timely for the application to be deemed complete prior to the beginning date of the review cycle which the applicant intends to enter, even if that time is less than the sixty (60) days allowed by the statute. The supplemental information must be submitted with the enclosed affidavit, which shall be executed and notarized; please attach the notarized affidavit to the supplemental information.

If all supplemental information is not received and the application officially deemed complete prior to the beginning of the next review cycle, then consideration of the application could be delayed into a later review cycle. The review cycle for each application shall begin on the first day of the month after the application has been deemed complete by the staff of the Health Services and Development Agency.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications

between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.

- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have any questions or require additional information, please do not hesitate to contact this office.

Sincerely,



Phillip M. Earhart
HSD Examiner

PME/MAF

Enclosure

ORIGINAL- SUPPLEMENTAL-1

Select Specialty Hosp. NKnoxville

CN1312-047

DEC 19 2013

December 16, 2013

Phillip M. Earhart, HSD Examiner
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: CON Application CN1312-047
Select Specialty Hospital--North Knoxville

Dear Mr. Earhart:

This letter responds to your recent request for additional information on this application. The items below are numbered to correspond to your questions. They are provided in triplicate, with affidavit.

1. Section A, Applicant Profile, Item 4

a. Please submit documentation from the Tennessee Secretary of State web-site that verifies Select Specialty Hospital is an active corporation.

The requested documentation is attached following this page.

b. Please clarify the relationship between Intensia Hospital of Knoxville, Inc. and the applicant.

1. Intensiva Hospital of Knoxville, Inc. was organized by another hospital company on February 6, 1977 as a Missouri corporation, received authorization to do business in Tennessee, and operated this facility for several years under the name "Intensiva Hospital of Knoxville".

2. Select purchased the facility's parent company in the late 1990's. On February 5, 1999, Select amended Intensiva Hospital of Knoxville, Inc.'s Missouri articles to reflect a name change to "Select Specialty Hospital--North Knoxville, Inc.", which is still this Missouri entity's name. Then, on March 5, 1999, the entity's Tennessee Certificate of Authority was also amended to reflect that name change. As documented in Attachment A.4 of the original submittal, Select Specialty Hospital--North Knoxville, Inc. holds a November 25, 2013 Certificate of Good Standing as a Missouri corporation. It is also active in Tennessee as documented by the response to 1a above (see following page).

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Tennessee Secretary of State

Tre Hargett

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Business Services Online > Search Business Information

Business Information Search

As of December 10, 2013 at 4:30 p.m. we have processed all corporate filings received in our office through December 9, 2013 and all annual reports received in our office through December 9, 2013.

Search: 1-1 of 1

Search Name:

☒ Starts With ☐ Contains

Control #:

Active Entities Only: ☐

| Control # | Entity Type | Name | Name Type | Name Status | Entity Filing Date | Entity Status |
|---------------------------|-------------|--|-----------|-------------|--------------------|---------------|
| 000325145 | CORP | SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE, INC. MISSOURI | Entity | Active | 02/07/1997 | Active |

1-1 of 1

Information about individual business entities can be queried, viewed and printed using this search tool for free.

If you want to get an electronic file of all business entities in the database,

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312 Rosa L. Parks Avenue, Snodgrass Tower, 6th Floor
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Page Two
December 16, 2013

c. Select Medical Corporation appears to have several lines of business such as long-term acute care, medical rehab, physical therapy, and business solutions. Please provide a general overview of these services and how many of each type are located in each state in which they operate.

The company operates between one and two thousand service sites across the United States--including 110 specialty hospitals, nearly 1,000 outpatient rehabilitation clinics, and services to hundreds of skilled nursing facilities, senior care centers, schools and pediatric centers, worksites, and private homes.

It is not practical to submit information on all of these nationally, by State. Select's licensed hospitals in Tennessee are listed in Attachment A-4 of the submitted application, consistent with its last Tennessee CON application (Memphis).

However, after this page Select is attaching several excerpts from the parent company's 2012 Annual Report and 10K report, which describe Select's several lines of services and provide a national map for major facility locations.

d. Please provide an ownership chart for the applicant that includes the percentage of ownership.

That information was provided in narrative form on page 8 of the submitted application. Attached following this page is an organization chart showing the same information.

2. Section A, Applicant Profile, Item 6

The Agency will need a deed, a purchase agreement, lease agreement, option to lease or other legal document which demonstrates the applicant has a legitimate legal interest in the property on which to locate the project. A fully executed (signed by both parties) Option to Purchase must at least include the expected purchase price, a description of the property with address and the anticipated date of closing. A fully executed Option to Lease must at least include the expected term of the lease and the anticipated lease payments.

This will be submitted under separate cover as soon as it is fully executed.

SELECT MEDICAL **BUSINESSES**

SUPPLEMENTAL

TOGETHER WITH ITS PARTNERS, SELECT MEDICAL OWNS AND/OR OPERATES MULTIPLE BUSINESSES ACROSS THE UNITED STATES. SERVICE LINES INCLUDE:

LONG TERM ACUTE CARE HOSPITALS

Select Medical operates 110 specialty hospitals known as long-term acute care hospitals. Approximately two-thirds of these facilities are hospitals-within-hospitals (HIHs). The remaining hospitals are freestanding facilities. Each of these hospitals offer a specialized environment to care for many of the most vulnerable and medically complex patients, the chronic critically ill.

**Select Specialty Hospital
Regency Hospital**



Let hope thrive™

OUTPATIENT REHABILITATION CLINICS

Select Medical's outpatient division operates nearly 1,000 clinics. These clinics offer a wide range of services, including physical therapy and hand/occupational therapy, sports rehabilitation, work injury prevention and management. Select Medical empowers its therapists by providing an industry-leading library of clinical education opportunities.

**NovaCare Rehabilitation
Select Physical Therapy
First Choice Rehabilitation Specialists
Kessler Rehabilitation Center
KORT - Kentucky Orthopedic Rehab Team
Saco Bay Physical Therapy**

SELECT MEDICAL ALSO PARTNERS WITH OTHER LEADING HEALTH CARE SYSTEMS TO OPERATE:

**SSM Physical Therapy
Baylor Institute for Rehabilitation,
Outpatient Services**

The Power of Physical Therapy™



Through its inpatient rehabilitation division, Select Medical owns and/or operates 12 hospitals under five brands.

**Kessler Institute For Rehabilitation
West Gables Rehabilitation Hospital**

SELECT MEDICAL ALSO PARTNERS WITH OTHER LEADING HEALTH CARE SYSTEMS TO OPERATE:

**SSM Rehabilitation Hospital
Baylor Institute for Rehabilitation
Penn State Hershey Rehabilitation Hospital**



Stronger Together

Through its contract therapy business, Select Medical provides physical, occupational and speech-language therapy services to skilled nursing facilities, assisted living and senior care centers, schools, pediatric centers, acute care hospitals, worksites and private homes.

**Select Medical Rehabilitation Services
Metro Therapy**

SELECT MEDICAL ALSO PARTNERS WITH OTHER LEADING HEALTH CARE SYSTEMS TO OPERATE:

SSM Homeward Bound

**Extraordinary Relationships
Extraordinary Outcomes**



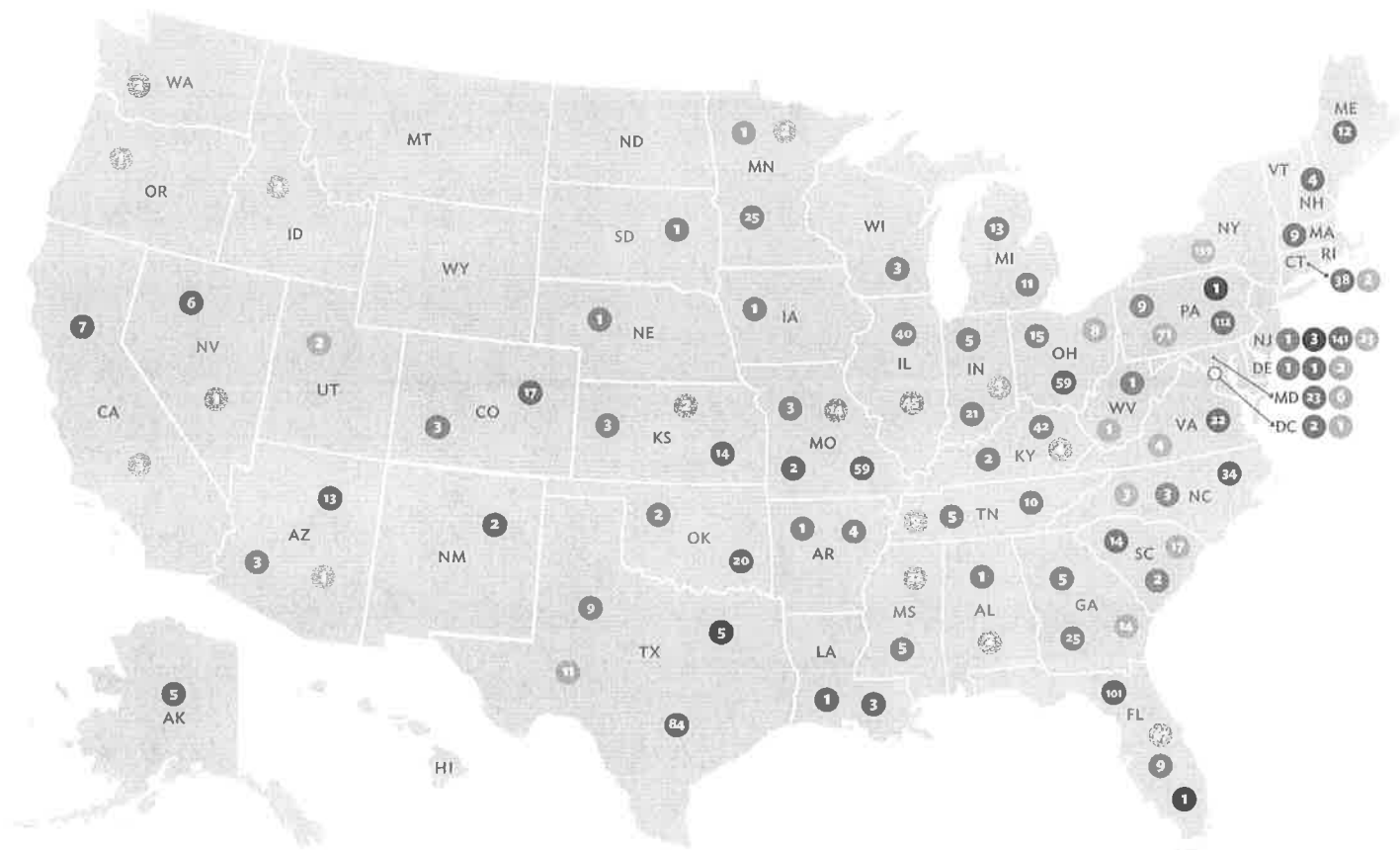
INPATIENT REHABILITATION FACILITIES

CONTRACT THERAPY

OUR NATIONAL FOOTPRINT

SUPPLEMENTAL

(AS OF DECEMBER 31, 2012)



110

LONG TERM ACUTE
CARE HOSPITALS



12

INPATIENT
REHABILITATION
HOSPITALS



979

OUTPATIENT
REHABILITATION
CLINICS



504

CONTRACT THERAPY
LOCATIONS

- the effect of claims asserted against us could subject us to substantial uninsured liabilities; and
- other factors discussed from time to time in our filings with the Securities and Exchange Commission (the “SEC”), including factors discussed under the heading “Risk Factors” of this annual report on Form 10-K.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we are under no obligation to publicly update or revise any forward-looking statements, whether as a result of any new information, future events or otherwise. You should not place undue reliance on our forward-looking statements. Although we believe that the expectations reflected in forward-looking statements are reasonable, we cannot guarantee future results or performance.

Investors should also be aware that while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to security analysts any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any security analyst irrespective of the content of the statement or report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

Item 1. *Business.*

Overview

We believe that we are one of the largest operators of both specialty hospitals and outpatient rehabilitation clinics in the United States based on number of facilities. As of December 31, 2012, we operated 110 long term acute care hospitals, or “LTCHs” and 12 inpatient rehabilitation facilities, or “IRFs” in 28 states, and 979 outpatient rehabilitation clinics in 32 states and the District of Columbia. We also provide medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and worksites. We began operations in 1997 under the leadership of our current management team.

We manage our company through two business segments, our specialty hospital segment and our outpatient rehabilitation segment. We had net operating revenues of \$2,949.0 million for the year ended December 31, 2012. Of this total, we earned approximately 75% of our net operating revenues from our specialty hospital segment and approximately 25% from our outpatient rehabilitation segment. Our specialty hospital segment consists of hospitals designed to serve the needs of long term stay acute care patients and hospitals designed to serve patients who require intensive inpatient medical rehabilitation care. Our outpatient rehabilitation segment consists of clinics and contract therapy locations that provide physical, occupational and speech rehabilitation services. See the financial statements beginning on page F-1 for financial information for each of our segments for the past three fiscal years.

Specialty Hospitals

We are a leading operator of specialty hospitals in the United States. As of December 31, 2012, we operated 122 facilities throughout 28 states, including 110 LTCHs, all of which are currently certified by the federal Medicare program as LTCHs, and 12 acute medical rehabilitation hospitals, all of which are currently certified by the federal Medicare program as IRFs. For the years ended December 31, 2010, December 31, 2011 and December 31, 2012, approximately 61%, 61% and 60%, respectively, of the net operating revenues of our specialty hospital segment came from Medicare reimbursement. As of December 31, 2012, we operated a total of 5,138 available licensed beds and employed approximately 19,900 people in our specialty hospital segment, consisting primarily of registered or licensed nurses, respiratory therapists, physical therapists, occupational therapists and speech therapists.

Patients are typically admitted to our specialty hospitals from general acute care hospitals. These patients have specialized needs, and serious and often complex medical conditions such as respiratory failure, neuromuscular disorders, traumatic brain and spinal cord injuries, strokes, non-healing wounds,

cardiac disorders, renal disorders and cancer. Given their complex medical needs, these patients generally require a longer length of stay than patients in a general acute care hospital and benefit from being treated in a specialty hospital that is designed to meet their unique medical needs. The average length of stay for patients in our specialty hospitals was 27 days in our LTCHs and 15 days in our IRFs, for the year ended December 31, 2012.

Below is a table that shows the distribution by medical condition (based on primary diagnosis) of patients in our hospitals for the year ended December 31, 2012:

| <u>Medical Condition</u> | <u>Distribution
of Patients</u> |
|-----------------------------------|-------------------------------------|
| Respiratory disorders | 35% |
| Neuromuscular disorders | 32% |
| Cardiac disorders | 10% |
| Wound care | 6% |
| Infectious diseases | 6% |
| Other | 11% |
| Total | <u>100%</u> |

We believe that we provide our services on a more cost-effective basis than a typical general acute care hospital because we provide a much narrower range of services. We believe that our services are therefore attractive to healthcare payors who are seeking to provide the most cost-effective level of care to their enrollees. Additionally, we continually seek to increase our admissions by demonstrating our quality of care and by doing so expanding and improving our relationships with the physicians and general acute care hospitals in the markets where we operate. We maintain a strong focus on the provision of high-quality medical care within our facilities and believe that this operational focus is in part reflected by the accreditation of our specialty hospitals by The Joint Commission and the Commission on Accreditation of Rehabilitation Facilities, or "CARF." As of December 31, 2012, The Joint Commission had fully accredited all of the 122 specialty hospitals we operated. Additionally, some of our IRFs have also applied for and received accreditation from CARF. The Joint Commission and CARF are independent, not-for-profit organizations that establish standards related to the operation and management of healthcare facilities. Each of our accredited facilities must regularly demonstrate to a survey team conformance to the applicable standards.

When a patient is referred to one of our hospitals by a physician, case manager, discharge planner, health maintenance organization or insurance company, we perform a clinical assessment of the patient to determine if the patient meets our criteria for admission. Based on the determinations reached in this clinical assessment, an admission decision is made by the attending physician.

Upon admission, an interdisciplinary team reviews a new patient's condition. The interdisciplinary team is comprised of a number of clinicians and may include any or all of the following: an attending physician; a specialty nurse; a physical, occupational or speech therapist; a respiratory therapist; a dietician; a pharmacist; and a case manager. Upon completion of an initial evaluation by each member of the treatment team, an individualized treatment plan is established and implemented. The case manager coordinates all aspects of the patient's hospital stay and serves as a liaison with the insurance carrier's case management staff when appropriate. The case manager communicates progress, resource utilization, and treatment goals between the patient, the treatment team and the payor.

Each of our specialty hospitals has an interdisciplinary medical staff that is comprised of physicians that have completed the privileging and credentialing process required by that specialty hospital, and have been approved by the governing board of that specialty hospital. Physicians on the medical staff of our specialty hospitals are generally not directly employed by our specialty hospitals but instead have staff

privileges at one or more hospitals. At each of our specialty hospitals, attending physicians conduct rounds on their patients on a daily basis and consulting physicians provide consulting services based on the medical needs of our patients. Our specialty hospitals also have on-call arrangements with physicians to ensure that a physician is available to care for our patients at all times. We staff our specialty hospitals with the number of physicians and other medical practitioners that we believe is appropriate to address the varying needs of our patients. When determining the appropriate composition of the medical staff of a specialty hospital, we consider (1) the size of the specialty hospital, (2) services provided by the specialty hospital, (3) if applicable, the size and capabilities of the medical staff of the general acute care hospital that hosts our hospital within hospital, or “HIH” and (4) if applicable, the proximity of an acute care hospital to a free-standing hospital. The medical staff of each of our specialty hospitals meets the applicable requirements set forth by Medicare, The Joint Commission and the state in which that specialty hospital is located.

Each of our specialty hospitals has an onsite management team consisting of a chief executive officer, a chief nursing officer and a director of business development. These teams manage local strategy and day-to-day operations, including oversight of clinical care and treatment. They also assume primary responsibility for developing relationships with the general acute care providers and clinicians in the local areas we serve that refer patients to our specialty hospitals. We provide our hospitals with centralized accounting, treasury, payroll, legal, operational support, human resources, compliance, management information systems and billing and collection services. The centralization of these services improves efficiency and permits hospital staff to focus their time on patient care.

We operate the majority of our LTCHs as HIHs. An LTCH that operates as an HIH leases space from a general acute care hospital, or “host hospital,” and operates as a separately licensed hospital within the host hospital, or on the same campus as the host hospital. In contrast, a free-standing LTCH does not operate on a host hospital campus. We operated 110 LTCHs at December 31, 2012, of which 109 are owned and one is managed. Of the 109 LTCHs we owned, 77 were operated as HIHs and 32 were operated as free-standing hospitals.

For a description of government regulations and Medicare payments made to our LTCHs, IRFs and outpatient rehabilitation services see “— Government Regulations” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Changes.”

Specialty Hospital Strategy

The key elements of our specialty hospital strategy are to:

Focus on Specialized Inpatient Services. We serve highly acute patients and patients with debilitating injuries and rehabilitation needs that cannot be adequately cared for in a less medically intensive environment, such as a skilled nursing facility. Generally, patients in our specialty hospitals require longer stays and can benefit from more specialized clinical care than patients treated in general acute care hospitals. Our patients’ average length of stay in our specialty hospitals was 24 days for the year ended December 31, 2012.

Provide High-Quality Care and Service. We believe that our specialty hospitals serve a critical role in comprehensive healthcare delivery. Through our specialized treatment programs and staffing models, we treat patients with acute, complex and specialized medical needs who are typically referred to us by general acute care hospitals. Our specialized treatment programs focus on specific patient needs and medical conditions such as ventilator weaning programs, wound care protocols and rehabilitation programs for brain trauma and spinal cord injuries. Our responsive staffing models ensure that patients have the appropriate clinical resources over the course of their stay. We believe that we are recognized for providing quality care and service, as evidenced by accreditation by The Joint Commission and CARE. We also believe we develop brand loyalty in the local areas we serve by demonstrating our quality of care.

Our treatment programs benefit patients because they give our clinicians access to the best practices and protocols that we have found to be most effective in treating various conditions such as respiratory failure, non-healing wounds, brain and spinal cord injuries, strokes and neuromuscular disorders. In addition, we combine or modify these programs to provide a treatment plan tailored to meet our patients' unique needs.

The quality of the patient care we provide is continually monitored using several measures, including patient satisfaction surveys, as well as clinical outcomes analyses. Quality measures are collected continuously and reported monthly, quarterly and annually. In order to benchmark ourselves against other healthcare organizations, we have contracted with outside vendors to collect our clinical and patient satisfaction information and compare it to other healthcare organizations. The information collected is reported back to each hospital, to our corporate office, and directly to The Joint Commission. As of December 31, 2012, The Joint Commission had fully accredited all of the 122 specialty hospitals we operated. Some of our IRFs have also received accreditation from CARE. See “ — Government Regulations — Licensure — Accreditation.”

Reduce Operating Costs. We continually seek to improve operating efficiency and reduce costs at our hospitals by standardizing operations and centralizing key administrative functions. These initiatives include:

- centralizing administrative functions such as accounting, treasury, payroll, legal, operational support, human resources, compliance and billing and collection;
- standardizing management information systems to aid in accounting, billing, collections and data capture and analysis; and
- centralizing sourcing and contracting to receive discounted prices for pharmaceuticals, medical supplies and other commodities used in our operations.

Increase Commercial Volume. We have focused on continued expansion of our relationships with commercial insurers to increase our volume of patients with commercial insurance in our specialty hospitals. We believe that commercial payors seek to contract with our hospitals because we offer patients high-quality, cost-effective care at more attractive rates than general acute care hospitals. We also offer commercial enrollees customized treatment programs not typically offered in general acute care hospitals.

Develop Inpatient Facilities. Since our inception in 1997 we have internally developed 64 specialty hospitals. The Medicare, Medicaid, and SCHIP Extension Act of 2007, or the “SCHIP Extension Act,” and the Patient Protection and Affordable Care Act, or the “PPACA,” prohibited the establishment and classification of new LTCHs or satellites commencing December 29, 2007 through December 28, 2012. As a result, we stopped all new LTCH development during this period. Now that the moratorium on new LTCHs and satellites has expired, we will evaluate the addition of LTCH beds at certain of our hospitals. We will continue to evaluate opportunities to develop joint venture relationships with significant health systems, and from time to time we may also develop new inpatient rehabilitation hospitals.

By leveraging the experience of our senior management and dedicated development team, we believe that we are well positioned to capitalize on development opportunities. When we identify joint venture opportunities, our development team conducts an extensive review of the area's referral patterns and commercial insurance to determine the general reimbursement trends and payor mix. Ultimately, we determine the needs of a joint venture, which could include working capital, the construction of new space or the leasing and renovation of existing space. During construction or renovation, the project is transitioned to our start-up team, which is experienced in preparing a specialty hospital for opening. The start-up team oversees construction or renovation, equipment purchases and any necessary licensure procedures. While the facility is being prepared for opening, our corporate operations group is responsible for the recruitment of a full-time management team, to which responsibility for the facility's management is transitioned once the facility is opened.

Pursue Opportunistic Acquisitions and Joint Ventures. In addition to our development initiatives, we may grow our network of specialty hospitals through opportunistic acquisitions or joint ventures. When we acquire a hospital or a group of hospitals or enter into a joint venture, a team of our professionals is responsible for formulating and executing an integration plan. We seek to improve financial performance at such facilities by adding clinical programs that attract commercial payors, centralizing administrative functions and implementing our standardized resource management programs.

Outpatient Rehabilitation

We believe that we are the largest operator of outpatient rehabilitation clinics in the United States based on number of facilities, with 979 facilities throughout 32 states and the District of Columbia as of December 31, 2012. Typically, each of our clinics is located in a medical complex or retail location. We also provide medical rehabilitative services to residents and patients of nursing homes, hospitals, schools, assisted living and senior care centers and worksites. As of December 31, 2012, we provided rehabilitative services to approximately 504 contracted locations in 30 states and the District of Columbia. Our outpatient rehabilitation segment employed approximately 9,100 people as of December 31, 2012.

In our clinics and through our contractual relationships, we provide physical, occupational and speech rehabilitation programs and services. We also provide certain specialized programs such as functional programs for work related injuries, hand therapy and athletic training services. The typical patient in one of our clinics suffers from musculoskeletal impairments that restrict his or her ability to perform normal activities of daily living. These impairments are often associated with accidents, sports injuries, work related injuries or post-operative orthopedic and other medical conditions. Our rehabilitation programs and services are designed to help these patients minimize physical and cognitive impairments and maximize functional ability. We also provide services designed to prevent short term disabilities from becoming chronic conditions. Our rehabilitation services are provided by our professionals including licensed physical therapists, occupational therapists, speech-language pathologists and athletic trainers.

Outpatient rehabilitation patients are generally referred or directed to our clinics by a physician, employer or health insurer who believes that a patient, employee or member can benefit from the level of therapy we provide in an outpatient setting. We believe that our services are attractive to healthcare payors who are seeking to provide a high-quality and cost-effective level of care to their enrollees.

In our outpatient rehabilitation segment, approximately 90% of our net operating revenues come from commercial payors, including healthcare insurers, managed care organizations and workers' compensation programs, contract management services and private pay sources. The balance of our reimbursement is derived from Medicare and other government sponsored programs.

Outpatient Rehabilitation Strategy

The key elements of our outpatient rehabilitation strategy are to:

Provide High-Quality Care and Service. We are focused on providing a high level of service to our patients throughout their entire course of treatment. To measure satisfaction with our service we have developed surveys for both patients and physicians. Our clinics utilize the feedback from these surveys to continuously refine and improve service levels. We believe that by focusing on quality care and offering a high level of customer service we develop brand loyalty in the local areas we serve. This high quality of care and service allows us to strengthen our relationships with referring physicians, employers and health insurers and drive additional patient volume.

Increase Market Share. We strive to establish a leading presence within the local areas we serve. To increase our presence, we seek to expand our services and programs and to open new clinics in our existing markets. This allows us to realize economies of scale, heightened brand loyalty and workforce continuity. We are focused on increasing our workers' compensation and commercial/managed care payor mix.

Expand Rehabilitation Programs and Services. Through our local clinical directors of operations and clinic managers within their service areas, we assess the healthcare needs of the areas we serve. Based on

Despite our substantial level of indebtedness, we and our subsidiaries may be able to incur additional indebtedness. This could further exacerbate the risks described above.

We and our subsidiaries may be able to incur additional indebtedness in the future. Although our senior secured credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us or our subsidiaries from incurring obligations that do not constitute indebtedness. As of December 31, 2012, we had \$135.9 million of revolving loan availability under our senior secured credit facilities (after giving effect to \$34.1 million of outstanding letters of credit). In addition, to the extent new debt is added to our and our subsidiaries' current debt levels, the substantial leverage risks described above would increase.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

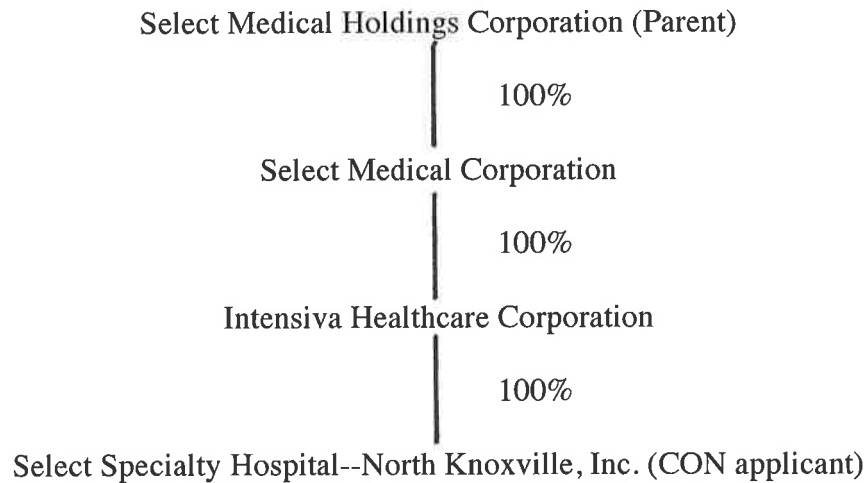
We currently lease most of our facilities, including clinics, offices, specialty hospitals and our corporate headquarters. We own 25 of our specialty hospitals.

We lease all but two of our outpatient rehabilitation clinics and related offices, which, as of December 31, 2012 included 866 leased outpatient rehabilitation clinics throughout the United States. We also lease the majority of our LTCH facilities except for the facilities described above. As of December 31, 2012, in our specialty hospitals we had 75 HIH leases and 16 free-standing building leases.

We lease our corporate headquarters from companies owned by a related party affiliated with us through common ownership or management. Our corporate headquarters is approximately 132,000 square feet and is located in Mechanicsburg, Pennsylvania. We lease several other administrative spaces related to administrative and operational support functions. As of December 31, 2012, this was comprised of 11 locations throughout the United States with approximately 50,000 square feet in total.

**SELECT SPECIALTY HOSPITAL--NORTH KNOXVILLE, INC.
ORGANIZATION CHART OF OWNERSHIP**

The applicant, Select Specialty Hospital--North Knoxville, Inc., is a Missouri corporation authorized to do business in Tennessee. It is wholly owned by Intensiva Healthcare Corporation (incorporated in Delaware), which is wholly owned by Select Medical Corporation (incorporated in Delaware), which is wholly owned by Select Medical Holdings Corporation (a publicly traded Delaware corporation).



Page Three
December 16, 2013

3. Section A, Applicant Profile, Item 13

a. The applicant notes United Community Healthcare (UHC) Plan is not contracted, but the applicant has pursued a contract. Please clarify what the current barriers are in obtaining a TennCare contract with UHC.

Select does not have such barriers but UHC has had, when queried. For example, most recently in August 2012 Select asked UHC to discuss a contract. E-mail exchanges concluded in the following UHC response, sent to Select August 29, 2012: "...they (*UHC TennCare section*) prefer to handle on a case by case basis rather than contracting." (D. Slawson, Senior Network Contractor, UHC, Little Rock, AR).

When a TennCare MCO enrollee is cared for in a contracted general acute care hospital, an MCO's reimbursement to that hospital has a contractual limit, regardless of how long the patient needs care. But if that patient is discharged to a contracted LTACH for a second acute care stay, the MCO must start paying for care a second time. It is obviously financially advantageous for an MCO to have the patient remain where they were initially hospitalized, letting the hospital bear the burden of clinically necessary care after the HCO's reimbursement obligation is met. Lack of a financial incentive to incur a second reimbursement obligation may be one factor in an MCO's decision on whether to contract with an LTACH.

b. Please also clarify why there is not a contract with TennCare Select.

Select Specialty Hospital--North Knoxville reports that it almost never receives requests for admissions of this small group of patients. In CY2013, it has had only one physician request admission of a TennCare Select patient; one admission was granted. TennCare Select is the backup plan for a small number of enrollees Statewide, concentrating on children in State custody, children who are in an institutional eligibility category, persons with intellectual disabilities, and children with Social Security benefits. Select does not admit any patients younger than 14.

c. Where are patients in the proposed service area who are enrolled in UHC and TennCare Select referred to for LTAC services?

The applicant has no way of knowing this. It seems unlikely that they would be referred to another part of the State for LTACH care, since the cost of that to the MCO would be about the same (or more) than at Select Specialty in Knoxville. They may remain in the general hospital where they were initially admitted, even after reimbursement from the TennCare MCO's is exhausted, making that hospital responsible for the costs of extended care.

Page Four
December 16, 2013

4. Section B, Project Description, Item I.

a. The applicant has requested consent calendar for this project. Please address the reason consent calendar is being requested as it relates to each of the following: 1) Need, 2) Economic Feasibility, and the 3) Orderly development to health care.

Need--The relocation of the facility to a newer building is needed to increase Select's percentage of private patient rooms, to offer the public larger patient rooms with appropriate temperature control, and to eliminate in appropriate maintenance costs such as the water intrusion problems in its current location. The LTACH option is needed by area hospitals to reduce their costs of continuing care for fragile patients who require acute care for many weeks beyond the initial DRG-specified hospital length of stay.

Economic Feasibility--The project will be funded by the applicant's cash reserves. The facility has operated historically with a positive cash flow and net operating income, and is reasonably projected to continue to do so after its proposed relocation.

Contribution to the Orderly Development of Health Care--The project will improve the patient's physical surroundings to match public expectations in a tertiary care referral center such as Knoxville. It will provide more comfortable and efficient patient surroundings. It will not increase the area's or the facility's licensed bed complements, or change the service area of the facility.

b. What is the facility age of the current fourth floor LTAC leased space at 900 East Oak Hill Avenue, Knoxville?

The Select leased space covers portions of two wings. One was built 67 years ago (1946) and the other was built 57 years ago (1957). So the leased space is on average more than 60 years old. Select is concerned that if renovation were attempted to fix the problems with utility systems and envelope integrity (water penetration issues), expensive problems such as asbestos insulation would be encountered; and it would be impossible to conduct patient care in this small nursing area while heavy renovation is taking place.

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December 16, 2013

c. Please compare the current lease expense at the existing location to the lease expense at the new proposed location.

At the existing location, Select leases 13,110 RSF of 60-year old space for \$19.93 PRSF. The new lease will be for 25,107 RSF at \$21.97 PRSF in CY2015. (Note that the Year One/CY2015 rent in the Projected Data Chart (\$564,651) exceeds the product of the rent rate times the rentable square footage (\$551,600). That is because the rent line of the chart includes pass-through payments to cover costs of utilities, taxes, common area maintenance, and other variable expenses that will be paid in addition to the lease rate, at the new location.)

d. Is there a 25% threshold limit that applies to the number of patients admitted from the proposed new location at North Knoxville Medical Center? When responding please explain the 25% threshold limit.

Yes, there will be a 25% limit on the number of Medicare patients that can be admitted from the proposed North Knoxville Medical Center location. The 25% rule does not apply to non-Medicare admissions.

For a “co-located”, on-campus LTACH (such as Select at North Knoxville Medical Center), no more than 25% of its Medicare admissions may come from any single provider location.

For “non co-located” free-standing LTACH facilities (not on a provider’s campus), there is a variation of the rule. Those LTACH’s can also accept up to 25% from any hospital--but no more than 25% combined from two or more hospitals sharing the same provider number.

e. Please complete the following table for the source of LTAC admissions of Select Specialty Hospital-North Knoxville in 2012.

| Admission Source | Admissions | % Total |
|------------------------------|------------|---------|
| Physicians Reg. Hospital | | |
| North Knoxville Medical Ctr. | | |
| etc | | |

The applicant’s 2012 admissions are shown by referral source in the supplemental table following this page.

| SELECT SPECIALTY HOSPITAL NORTH KNOXVILLE--C2012 ADMISSIONS BY SOURCE | | | | | | | | | |
|---|-----|----------|--------------------------------|--|---------------------|-----|----------|--------------------------------|--|
| TOTAL ADMISSIONS | | | | | MEDICARE ADMISSIONS | | | | |
| 37.57% | 133 | 440120-H | Physicians Regional Medical Ce | | 36.91% | 86 | 440120-H | Physicians Regional Medical Ce | |
| 20.34% | 72 | 440015 | University of Tennessee Medica | | 18.03% | 42 | 440015 | University of Tennessee Medica | |
| 7.06% | 25 | 440173 | PARKWEST MEDICAL CENTER | | 7.73% | 18 | 440173 | PARKWEST MEDICAL CENTER | |
| 7.06% | 25 | 440226 | Turkey Creek Medical Center | | 7.73% | 18 | 440226 | Turkey Creek Medical Center | |
| 5.08% | 18 | 440034 | Methodist Medical Center of Oa | | 6.01% | 14 | 440034 | Methodist Medical Center of Oa | |
| 4.24% | 15 | 440173-A | Parkwest Medical Center | | 3.86% | 9 | 440173-A | Parkwest Medical Center | |
| 3.39% | 12 | 440120-A | North Knoxville Medical Center | | 2.57% | 6 | 440125-B | FORT SANDERS REGIONAL MEDICAL | |
| 1.98% | 7 | 440125-B | FORT SANDERS REGIONAL MEDICAL | | 2.15% | 5 | 440056 | Jefferson Memorial Hospital | |
| 1.69% | 6 | 440056 | Jefferson Memorial Hospital | | 2.15% | 5 | 440120-A | North Knoxville Medical Center | |
| 1.69% | 6 | 440110 | Fort Loudoun Medical Center | | 1.72% | 4 | 440011 | Blount Memorial Hospital | |
| 1.41% | 5 | 44X452 | ANY OTHER REFERRAL SOURCE | | 1.72% | 4 | 440110 | Fort Loudoun Medical Center | |
| 1.41% | 5 | 440011 | Blount Memorial Hospital | | 1.29% | 3 | 44X452 | ANY OTHER REFERRAL SOURCE | |
| 1.13% | 4 | 440030 | MORRISTOWN-HAMBLEH HOSPITAL | | 1.29% | 3 | 440030 | MORRISTOWN-HAMBLEH HOSPITAL | |
| 0.85% | 3 | 440009 | CUMBERLAND MEDICAL CENTER | | 0.86% | 2 | 44HOME | HOME | |
| 0.85% | 3 | 440032 | HAWKINS COUNTY MEMORIAL HOSPIT | | 0.86% | 2 | 440009 | CUMBERLAND MEDICAL CENTER | |
| 0.85% | 3 | 440081 | LeConte Medical Center | | 0.86% | 2 | 440032 | HAWKINS COUNTY MEMORIAL HOSPIT | |
| 0.56% | 2 | 440052 | SCOTT COUNTY HOSPITAL | | 0.86% | 2 | 440052 | SCOTT COUNTY HOSPITAL | |
| 0.56% | 2 | 440084 | SWEETWATER HOSPITAL ASSOCIATIO | | 0.86% | 2 | 440084 | SWEETWATER HOSPITAL ASSOCIATIO | |
| 0.28% | 1 | 10083 | SOUTH BALDWIN REGIONAL MEDICAL | | 0.43% | 1 | 10083 | SOUTH BALDWIN REGIONAL MEDICAL | |
| 0.28% | 1 | 360180 | THE CLEVELAND CLINIC | | 0.43% | 1 | 360180 | THE CLEVELAND CLINIC | |
| 0.28% | 1 | 44HOME | HOME | | 0.43% | 1 | 440039 | VANDERBILT UNIVERSITY MEDICAL | |
| 0.28% | 1 | 440033 | LaFollette Medical Center | | 0.43% | 1 | 440059 | COOKEVILLE REGIONAL MEDICAL CE | |
| 0.28% | 1 | 440039 | VANDERBILT UNIVERSITY MEDICAL | | 0.43% | 1 | 440081 | LeConte Medical Center | |
| 0.28% | 1 | 440059 | COOKEVILLE REGIONAL MEDICAL CE | | 0.43% | 1 | 440104 | ERLANGER BARONESS | |
| 0.28% | 1 | 440104 | ERLANGER BARONESS | | | | | | |
| 0.28% | 1 | 445107 | NATIONAL HEALTHCARE | | | | | | |
| 100.0% | 354 | | | | 100.0% | 233 | | | |

Source: Select Specialty Hospital--Corporate Management Staff

Note: Shading denotes hospitals constituting approximately 90% of all referrals to SSN-NK

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f. Does the applicant expect the patient admission mix to change at the new location? If so, how will it change?

The applicant does not anticipate that the referral sources or case mix will change in any significant way due to the relocation.

5. Section B, Item II.A.

Please submit a square footage and costs per square footage chart.

The requested chart is attached following this page. It was prepared by Taggart Architecture, the project's architectural firm.

6. Section B, Item II.D.

**What are the dimensions of the private rooms at the new proposed site?
What are the LTAC private room dimensions recommended by AIA?**

Taggart Architecture says that, excluding their vestibules, the new LTACH rooms will be 11 feet 9 inches long (headwall to footwall) and 12 feet 10 inches wide--approximately 151 SF of space. Taggart says that AIA Guidelines do not specifically address LTACH rooms, but do require a typical medical-surgical patient room to have at least 100 SF.

7. Section B, Project Description Item III.A.(Plot Plan)

a. The plot plan appears to be labeled incorrectly in the attachments. Please revise tab.

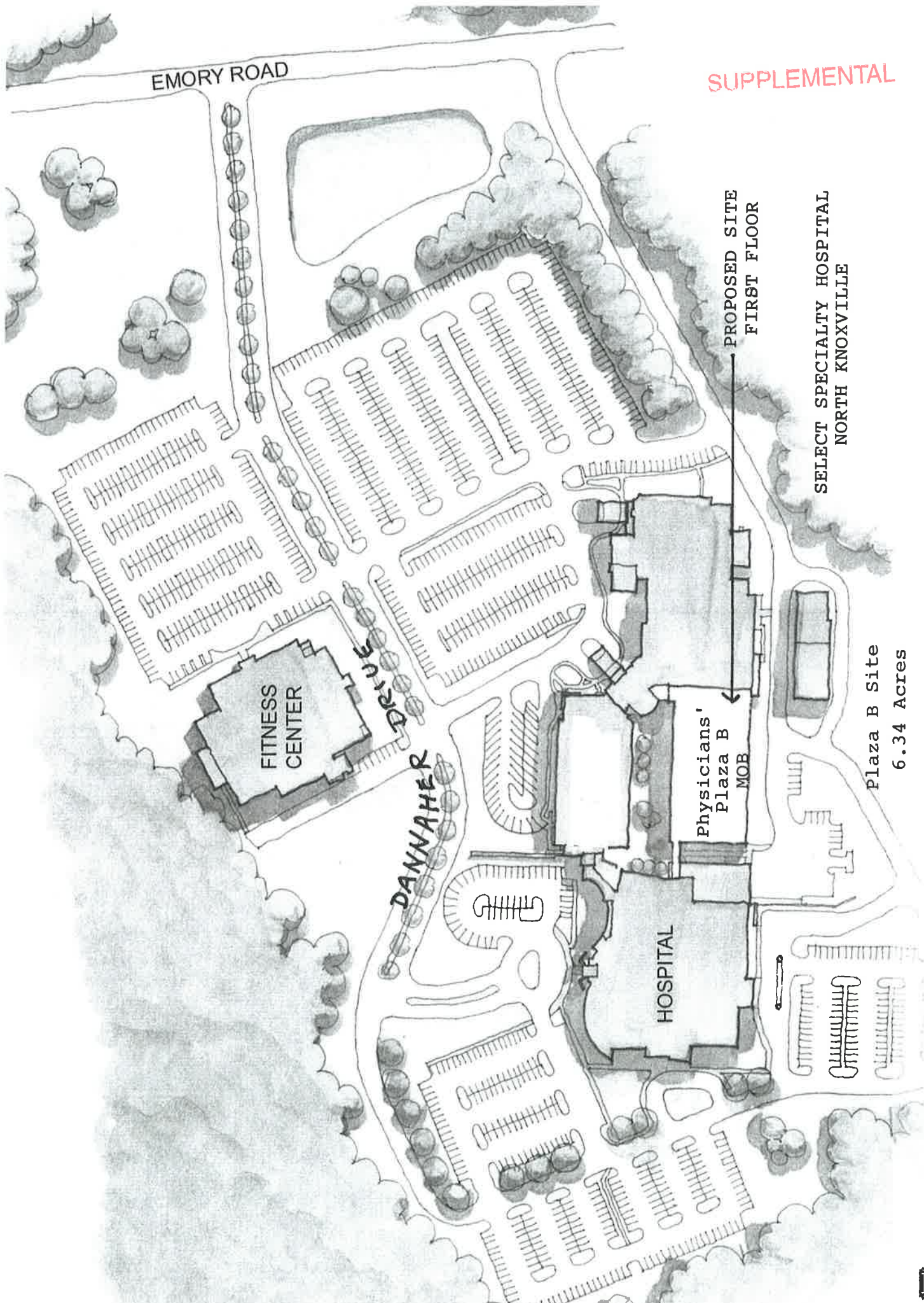
The plot plan's name (at the bottom of the page) has been changed to "North Knoxville Medical Center" on the revised plot plan attached following this page.

The originally submitted version was labeled "St. Mary's" because the plot plan was printed when the campus was developed by Mercy Health System.

SELECT SPECIALTY HOSPITAL -- NORTH KNOXVILLE
SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

| A. Unit / Department | Existing Location | Existing SF | Temporary Location | Proposed Final Location | Proposed Final Square Footage | | | Proposed Final Cost / SF | | Total |
|--------------------------------|-------------------|-------------|--------------------|-------------------------|-------------------------------|-----|-----------|--------------------------|-----|----------------|
| | | | | | Renovated | New | Total | Renovated | New | |
| SELECT SPECIALTY HOSPITAL | | | | | | | | | | |
| KNOXVILLE, TN | | | | | | | | | | |
| | | | | | | | | | | |
| 33 PATIENT ROOMS | | 9,195 SF | | | 9,195 SF | | 9,195 SF | \$242.00 | NA | \$2,225,190.00 |
| | | | | | | | | | | |
| SUPPORT AREAS | | 14,429 SF | | | 14,429 SF | | 14,429 SF | \$194.00 | NA | \$2,799,810.00 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| B. Unit/Dept. GSF Sub-Total | | | | | | | | | | \$5,025,000.00 |
| C. Mechanical / Electrical GSF | | | | | | | | | | |
| D. Circulation / Structure GSF | | | | | | | | | | |
| E. Total GSF | | | | | | | | | | \$5,025,000.00 |
| Renovation | | | | | | | | | | |
| Canopies | | | | | | | | | | |
| GRAND TOTAL | | 23,624 | | | 23,624 | | 23,624 | \$212.71 | | \$5,025,000 |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| | | | | | | | | | | |

SUPPLEMENTAL



SUPPLEMENTAL

SELECT SPECIALTY HOSPITAL
NORTH KNOXVILLE

Plaza B Site
6.34 Acres

NORTH KNOXVILLE MEDICAL CENTER SITE PLAN

Knoxville, Tennessee

Overall Site Plan

NOT TO SCALE 05-10-06

All patients coming to the LTACH for admission will first come by ambulance transport (not private vehicles) to North Knoxville Medical Center's Emergency Department, which does have an entrance canopy. The patients will then be moved through the hospital and through a connector to the Physician's Plaza MOB, where they will be admitted to the LTACH.

8. Section B, Project Description Item III.B.1

As footnoted on Table Five, Google Maps is the source for that information. When preparing the application, the applicant noticed those identical 31 minute drive times, and at that time re-checked Google Maps--again getting identical drive times. The applicant assumes that this reflects the availability of higher-speed roadways between Oak Ridge and central Knoxville than between Oak Ridge and Powell.

| <u>County</u> | <u>City</u> | <u>To Proposed Site</u> | | <u>To Current Site</u> | |
|---------------|-------------|-------------------------|----------------|------------------------|----------------|
| | | <u>Miles</u> | <u>Minutes</u> | <u>Miles</u> | <u>Minutes</u> |
| Anderson | Oak Ridge | 19.8 | 31 | 26.8 | 33 |

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9. Section C, Economic Feasibility, Item 4. (Projected Data Chart)

a. What is included in Ancillary Patient Services line expense of \$2,167,396 in Year 2015?

The ancillary patient services expense line includes all services provided to patients through contracts with a third party. They include dietary meal trays, laundry, housekeeping, cardiac therapy, labs, radiology, EKG/EEG, dialysis, blood, Nuclear Medicine, CT, MRI, and surgical procedures.

b. Please clarify why the equipment rental expenses and corporate services expenses are the exact amount in Year 2015 (\$238,700) and 2016 (\$241,175).

For CY2013, Select's rental equipment is costing \$28.31 per patient day. Anticipating the purchase of some equipment as part of the move, Select projects that in CY2015 and CY2016, equipment rental cost will be reduced to \$25 PPD. However, the CY2013 PPD cost for corporate services is \$24.88 PPD; and Select projects a slight cost increase to \$25 PPD. These two changes offset one another closely, resulting in the submitted projections.

c. Please clarify if the applicant will be paying for construction costs in addition to lease expense.

Select expects to pay for construction costs, based on current drafts of the lease being negotiated.

d. Please explain why net operating income is projected to fall from \$1,103,710 in Year 2013 at the current location, to \$235,641 in Year One at the proposed new location.

Projected net operating income decreases as a result of increased depreciation. Select expects to see depreciation increase by \$1,176,753 in Year One at the new location. It projects that income will decrease by approximately \$868,000.

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10. Section C, Economic Feasibility, Item 10.

Please provide the most recent audited financial statements for Select Medical Corporation.

The audited consolidated balance sheet and income statement for the ultimate parent company, Select Medical Holdings Corporation, are attached following this page. The source is the company's combined 2012 Annual Report / 10K filing.

This is a very large, publicly traded company. Its reports are approximately two hundred pages long. Because the parent company is not the CON applicant here, and is not providing the funding for the project, hopefully its entire lengthy audited statements with notes are not needed for this review. However, Select will be happy to submit notarized hard copy of any additional sections of this lengthy document, that HSDA staff identifies as required for the review. The entire parent company document can be inspected at the following link.

http://www.selectmedical.com/uploadedFiles/Content/Investor_Relations/Annual_Financial_Information/2012-Annual-Report-10K-Combined.pdf

11. Section C, Orderly Development, Item 1.

Please list the service area hospitals the applicant has transfer agreements and which ones they do not.

Select reports that it does not maintain current emergency transfer agreements for patients it receives. Although all Select's admissions arrive by ambulance, they are coming from a prior hospital stay. They are always fully stabilized long before discharge to Select, so they do not need emergency care. Emergency transfer agreements have not been considered necessary, by either the discharging or the receiving hospital. However, if any area hospital were to request such an agreement, it would be done.

For Select patients needing a transfer to an emergency room, the destination will always be the ED of the host hospital where Select is located. For the current location at East Oak Hill Avenue, neither Tennova (the hospital's current owner) nor Mercy Health System (the hospital's prior owner) has felt that an emergency transfer agreement was needed for such internal transport. However, Select will be happy to execute a transfer agreement with Tennova North Knoxville Medical Center if requested by that facility.

A black and white photograph of a group of diverse women. In the foreground, a woman with short, light-colored hair is smiling and looking to the right, holding the handles of a walker. Behind her, three other women are also smiling. The woman on the far left has long blonde hair. The woman in the center has short dark hair. The woman on the far right has dark curly hair. They are all dressed in casual to semi-formal attire. The background is slightly blurred, showing what appears to be an indoor setting with some lighting fixtures.

SELECT MEDICAL
HOLDINGS CORPORATION
**2012 ANNUAL
REPORT**

IMPROVING QUALITY OF LIFE.

PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets
(in thousands, except share and per share amounts)

| | Select Medical Holdings Corporation | | Select Medical Corporation | |
|---|-------------------------------------|--------------------|----------------------------|--------------------|
| | December 31, 2011 | December 31, 2012 | December 31, 2011 | December 31, 2012 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 12,043 | \$ 40,144 | \$ 12,043 | \$ 40,144 |
| Accounts receivable, net of allowance for doubtful accounts of \$47,469 and \$41,854 in 2011 and 2012, respectively | 413,743 | 359,929 | 413,743 | 359,929 |
| Current deferred tax asset | 18,305 | 17,877 | 18,305 | 17,877 |
| Prepaid income taxes | 9,497 | 3,895 | 9,497 | 3,895 |
| Other current assets | 29,822 | 31,818 | 29,822 | 31,818 |
| Total Current Assets | 483,410 | 453,663 | 483,410 | 453,663 |
| Property and equipment, net | 510,028 | 501,552 | 510,028 | 501,552 |
| Goodwill | 1,631,716 | 1,640,534 | 1,631,716 | 1,640,534 |
| Other identifiable intangibles | 72,123 | 71,745 | 72,123 | 71,745 |
| Assets held for sale | 2,742 | 2,742 | 2,742 | 2,742 |
| Other assets | 72,128 | 91,125 | 70,719 | 90,077 |
| Total Assets | \$2,772,147 | \$2,761,361 | \$2,770,738 | \$2,760,313 |
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities: | | | | |
| Bank overdrafts | \$ 16,609 | \$ 17,836 | \$ 16,609 | \$ 17,836 |
| Current portion of long-term debt and notes payable . . | 10,848 | 11,646 | 10,848 | 11,646 |
| Accounts payable | 95,618 | 89,547 | 95,618 | 89,547 |
| Accrued payroll | 82,888 | 88,586 | 82,888 | 88,586 |
| Accrued vacation | 51,250 | 55,714 | 51,250 | 55,714 |
| Accrued interest | 15,096 | 22,016 | 11,980 | 18,759 |
| Accrued restructuring | 5,027 | 1,726 | 5,027 | 1,726 |
| Accrued other | 101,076 | 100,314 | 106,316 | 105,554 |
| Due to third party payors | 5,526 | 1,078 | 5,526 | 1,078 |
| Total Current Liabilities | 383,938 | 388,463 | 386,062 | 390,446 |
| Long-term debt, net of current portion | 1,385,950 | 1,458,597 | 1,218,650 | 1,291,297 |
| Non-current deferred tax liability | 82,028 | 89,510 | 82,028 | 89,510 |
| Other non-current liabilities | 64,905 | 68,502 | 64,905 | 68,502 |
| Total Liabilities | 1,916,821 | 2,005,072 | 1,751,645 | 1,839,755 |
| Redeemable non-controlling interests | 8,988 | 10,811 | 8,988 | 10,811 |
| Stockholders' Equity: | | | | |
| Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 145,268,190 shares and 140,589,256 shares issued and outstanding in 2011 and 2012, respectively | 145 | 141 | — | — |
| Common stock of Select, \$0.01 par value, 100 shares issued and outstanding | — | — | 0 | 0 |
| Capital in excess of par | 493,828 | 473,697 | 848,844 | 859,839 |
| Retained earnings | 325,706 | 243,210 | 134,602 | 21,478 |
| Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity | 819,679 | 717,048 | 983,446 | 881,317 |
| Non-controlling interests | 26,659 | 28,430 | 26,659 | 28,430 |
| Total Equity | 846,338 | 745,478 | 1,010,105 | 909,747 |
| Total Liabilities and Equity | \$2,772,147 | \$2,761,361 | \$2,770,738 | \$2,760,313 |

The accompanying notes are an integral part of these consolidated financial statements.

Select Medical Holdings Corporation
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share amounts)

| | For the Year Ended December 31, | | |
|--|--|-------------|-------------|
| | 2010 | 2011 | 2012 |
| Net operating revenues | \$2,390,290 | \$2,804,507 | \$2,948,969 |
| Costs and expenses: | | | |
| Cost of services | 1,982,179 | 2,308,570 | 2,443,550 |
| General and administrative | 62,121 | 62,354 | 66,194 |
| Bad debt expense | 41,147 | 51,347 | 39,055 |
| Depreciation and amortization | 68,706 | 71,517 | 63,311 |
| Total costs and expenses | 2,154,153 | 2,493,788 | 2,612,110 |
| Income from operations | 236,137 | 310,719 | 336,859 |
| Other income and expense: | | | |
| Loss on early retirement of debt | — | (31,018) | (6,064) |
| Equity in earnings (losses) of unconsolidated subsidiaries | (440) | 2,923 | 7,705 |
| Other income | 632 | — | — |
| Interest income | — | 322 | — |
| Interest expense | (112,337) | (99,216) | (94,950) |
| Income before income taxes | 123,992 | 183,730 | 243,550 |
| Income tax expense | 41,628 | 70,968 | 89,657 |
| Net income | 82,364 | 112,762 | 153,893 |
| Less: Net income attributable to non-controlling interests | 4,720 | 4,916 | 5,663 |
| Net income attributable to Select Medical Holdings Corporation | 77,644 | 107,846 | 148,230 |
| Other comprehensive income: | | | |
| Unrealized gain on interest rate swap, net of tax | 8,914 | — | — |
| Comprehensive income attributable to Select Medical Holdings Corporation | \$ 86,558 | \$ 107,846 | \$ 148,230 |
| Income per common share: | | | |
| Basic | \$ 0.49 | \$ 0.71 | \$ 1.05 |
| Diluted | \$ 0.48 | \$ 0.71 | \$ 1.05 |

The accompanying notes are an integral part of these consolidated financial statements.

Select Medical Corporation
Consolidated Statements of Operations and Comprehensive Income
(in thousands)

| | For the Year Ended December 31, | | |
|---|---------------------------------|-------------|-------------|
| | 2010 | 2011 | 2012 |
| Net operating revenues | \$2,390,290 | \$2,804,507 | \$2,948,969 |
| Costs and expenses: | | | |
| Cost of services | 1,982,179 | 2,308,570 | 2,443,550 |
| General and administrative | 62,121 | 62,354 | 66,194 |
| Bad debt expense | 41,147 | 51,347 | 39,055 |
| Depreciation and amortization | 68,706 | 71,517 | 63,311 |
| Total costs and expenses | 2,154,153 | 2,493,788 | 2,612,110 |
| Income from operations | 236,137 | 310,719 | 336,859 |
| Other income and expense: | | | |
| Loss on early retirement of debt | — | (20,385) | (6,064) |
| Equity in earnings (losses) of unconsolidated subsidiaries | (440) | 2,923 | 7,705 |
| Other income | 632 | — | — |
| Interest income | — | 322 | — |
| Interest expense | (84,472) | (81,232) | (83,759) |
| Income before income taxes | 151,857 | 212,347 | 254,741 |
| Income tax expense | 51,380 | 80,984 | 93,574 |
| Net income | 100,477 | 131,363 | 161,167 |
| Less: Net income attributable to non-controlling interests | 4,720 | 4,916 | 5,663 |
| Net income attributable to Select Medical Corporation | 95,757 | 126,447 | 155,504 |
| Other comprehensive income: | | | |
| Unrealized gain on interest rate swap, net of tax | 8,914 | — | — |
| Comprehensive income attributable to Select Medical Corporation | \$ 104,671 | \$ 126,447 | \$ 155,504 |

The accompanying notes are an integral part of these consolidated financial statements.

Page Ten
December 16, 2013

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,

A handwritten signature in blue ink that reads "John Wellborn". The signature is written in a cursive style with a large, stylized "J" and "W".

John Wellborn
Consultant

DEC 16 '13 AM 10:03

SUPPLEMENTAL

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

NAME OF FACILITY: SELECT SPECIALTY HOSPITAL --
NORTH KNOXVILLE

I, JOHN WELLBORN, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

John Wellborn
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 16 day of Dec, 2013,
witness my hand at office in the County of Davidson, State of Tennessee.

Christopher D. Dobbs
NOTARY PUBLIC

My commission expires 6-21-16.

HF-0043

Revised 7/02



ORIGINAL- SUPPLEMENTAL-2

Select Specialty Hospital
NKnoxville

CN1312-047

December 20, 2013

Phillip M. Earhart, HSD Examiner
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: CON Application CN1312-047
Select Specialty Hospital--North Knoxville

Dear Mr. Earhart:

This letter responds to your second request for additional information on this application. The items below are numbered to correspond to your questions. They are provided in triplicate, with affidavit.

1. Section A, Applicant Profile, Item 6

The applicant's response that documentation of legal interest in the site for the relocated LTACH will be submitted under separate cover is noted.

The applicant expects to submit an executed document within a few days, in time for acceptance into the January 1 review cycle.

2. Section B, Project Description, Item I.

a. The applicant stated that no more than 25% of an LTACH's Medicare admissions can come from any single provider location. The chart by admission source submitted indicated that 36.91% of the 2012 Medicare admissions to Select Specialty Hospital-North Knoxville were from Physicians Regional Medical Center. Please explain.

On December 18, two days after the applicant submitted responses to your first supplemental questions, the law changed to permit up to 50% to come from any single hospital. But even prior to this new change, the old law allowed up to 50% to come from any single hospital through the end of CY2013. The 25% ceiling would have imposed for CY2014 admissions, at the new location. That is now all mooted by the amendment. The change has been passed by both chambers and signed by the President.

Page Two
December 20, 2013

b. The applicant has stated there will be no significant change in referral sources or case mix. Wouldn't the applicant expect an increased number of referrals from North Knoxville Medical Center and a reduced number of referrals from Physicians Regional Medical Center?

Select projects that the referral volumes from each of those hospitals will remain constant for two reasons. First, the LTACH is a regional referral facility and it currently receives all the patients that need this care, from both North Knoxville and Physicians Regional Medical Centers. Second, most of Select Specialty North Knoxville's referrals from those two facilities are made by the same large physician group, which rotates through both facilities.

3. Section B, Item II.A.

The applicant has stated the new lease will be for 25,107 rentable square feet; however the Square Footage Chart lists a total of 23,624 square feet. Please explain.

Those figures are correct.

The Square Footage Chart is an architectural analysis that deals with usable square feet--the actual floor space being covered by the project (23,624 SF), which is the SF data on which costs are being estimated.

The lease, like most commercial leases, takes that usable SF figure and "grosses it up", or increases it, by a small percentage, to capture the tenant's use of common areas outside its actual leased premises: elevators, stairwells, corridors, building entrances, parking, etc. Here that process resulted in 25,107 SF for leasing calculation purposes. Table Two-A in the application provided both figures.

The gross-up percentages can vary from 5% to 12% commonly; here it appears that the MOB owner is using slightly more than a 6% gross-up factor to arrive at the "rentable" square footage for lease purposes. That is not the applicant's calculation.

Page Three
December 20, 2013

4. Section B, Project Description Item III.A.(Plot Plan)

The applicant has stated that all patients coming to the LTACH for admission will first come by ambulance transport to North Knoxville Medical Center's Emergency Department. What is the admission process for North Knoxville Medical Center patients being discharged to the LTACH?

The applicant was referring to patients coming from other hospital campuses. Those coming from North Knoxville Medical Center will simply be transported by gurney through that hospital's corridors and elevators to the LTACH floor in the adjoining MOB.

The applicant has also learned that patients coming to the LTACH from other hospitals may not be taken off the ambulance at the ED canopied entrance. The hospital and MOB where this LTACH is located has other entrances with canopies, according to Select operations officers. It is likely that the ambulances with LTACH transfers, none of whom are emergency transfers, will be asked to discharge their patients at another canopied hospital or MOB entrance, especially when the ED is busy with true emergency traffic.

5. Section C, Economic Feasibility, Item 10.

Your response to this item is noted. If available, please provide the audited financial statements for Select Specialty Hospital-North Knoxville.

Select does not have audited statements for individual hospitals unless mandated by State laws; in the case of Tennessee this is not required and it is not done. The submitted internal unaudited statements are all that is available.

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,

A handwritten signature in blue ink that reads "John Wellborn". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Wellborn".

John Wellborn
Consultant

DEC 20 13 PM 1:05
SUPPLEMENTAL

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

NAME OF FACILITY: SELECT SPECIALTY HOSPITAL - NORTH KNOXVILLE
SECOND SUPPLEMENTAL

I, JOHN WELLBORN, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

John Wellborn
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 20 day of Dec, 2013, witness my hand at office in the County of Davidson, State of Tennessee.

Christopher D. Dobbs
NOTARY PUBLIC

My commission expires 6-21-16

HF-0043

Revised 7/02



SUPPLEMENTAL - #3 -ORIGINAL-

Select Specialty Hospital

CN1312-047

TRAUGER & TUKE
ATTORNEYS AT LAW
THE SOUTHERN TURF BUILDING
222 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2117
TELEPHONE (615) 256-8585
TELECOPIER (615) 256-7444

SUPPLEMENTAL #3

December 30, 2013

4:10 pm

December 30, 2013

By Hand Delivery

Mark Farber, Deputy Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

**RE: CON Application CN1312-047
Select Specialty Hospital—North Knoxville**

Dear Mr. Farber:

This letter responds to the Agency's third request for additional information on this application and is being submitted in triplicate with the appropriate affidavits. When we spoke last week, you asked for documentation of the recent change in the Medicare reimbursement rule for LTACH admissions for CY2014. (Referenced in John Wellborn's letter of December 20, 2013, in the applicant's response to question 2.a.) In response to your third request, I enclose with this letter an American Hospital Association summary of the LTACH provisions in the Bipartisan Budget Act,¹ which was signed into law on December 26, 2013. The summary states, on page two (under "**25% Rule**"), that relief was granted from the 25% Rule for four years beginning October 1, 2013. For the next four years, hospital-within-hospital LTACHs will be allowed to admit up to 50% of their patients from a single provider location.

Finally, Select is still waiting on a final signature of the lease for the new site proposed in the application. The executed document will be submitted to the Agency as soon as it is received.

¹ The enclosed AHA summary of the Bipartisan Budget Act was obtained at <http://www.aha.org/advocacy-issues/postacute/ltach/index.shtml>.

December 30, 2013

4:10 pm

TRAUGER & TUKE

Tennessee Health Services and
Development Agency
December 30, 2013
Page 2

Thank you for your assistance.

Very truly yours,



Paul W. Ambrosius
Counsel to the Applicant

PWA/kmn

LTCH Provisions in Bipartisan Budget Act Signed into Law Dec. 26, 2013

LTCH Prospective Payment System (PPS) Payment for Selected Cases

Beginning Oct. 1, 2015, cases that were admitted to an LTCH immediately following discharge from an inpatient PPS hospital would be paid an LTCH PPS rate if they meet either of the following criteria:

- Prior inpatient PPS hospital stay included at least three days in an intensive care unit (ICU) or coronary care unit (CCU); or
- Discharged patient assigned to an MS-LTC-DRG for cases receiving greater than 96 hours of ventilator service in the LTCH.

Site-Neutral Payment for Selected Cases

- Effective Date. A site-neutral payment policy would take effect for cost reporting periods beginning on or after Oct. 1, 2015.
- Cases Paid Site-Neutral Rate:
 - Cases that do not meet the LTCH PPS criteria.
 - Cases with a psychiatric or rehabilitation principal diagnosis.
- Site-Neutral Rate:
 - LTCH cases paid the site-neutral rate would be paid the lesser of the following two options:
 1. The inpatient PPS-comparable per-diem rate (currently used to pay some short-stay outlier cases) plus outlier payment, if applicable; or
 2. 100% of estimated cost of the services.
 - No cap will be applied to a payment for site-neutral cases.
- Phase-In of Site-Neutral Policy: For cost reports beginning Oct. 1, 2015 through Sept. 30, 2017, cases subject to the site-neutral rate would be paid a blended rate that is based half on the site-neutral rate and half on the LTCH PPS rate.
- Regulatory Relief for Site-Neutral Cases: For discharges in cost reports beginning Oct. 1, 2015 or later, cases paid a site-neutral rate and Medicare Advantage cases would be exempt from the LTCH average length of stay calculation. Existing inpatient PPS hospitals that convert to an LTCH in the future would not receive this exemption.
- Facility Cap on Site-Neutral Cases: For cost reporting periods beginning Oct. 1, 2015 and thereafter, the Centers for Medicare & Medicaid Services (CMS) would annually inform each LTCH of its "LTCH discharge payment percentage." For cost reporting periods beginning Oct. 1, 2019 and thereafter, at least 50 percent of all of its discharges must be cases paid under the LTCH PPS, or the LTCH will be paid the inpatient PPS rate for all discharges for future cost reporting periods. LTCHs subject to this payment reduction may seek reinstatement under a process to be established by the Department of Health and Human Services (HHS) Secretary. (The parameters of this provision are being studied to assess how they

would likely be interpreted and implemented by CMS and to consider further advocacy on this item.)

- Study: By June 2019 the Medicare Payment Advisory Commission would be required to report to Congress on the effect of site-neutral payment on LTCHs and hospice, the need to continue applying the 25% Rule, and recommendations on how to change the site-neutral policy.

25% Rule

- Four-Year Extension of 25% Rule Relief. 25% Rule relief would be granted for four-years for cost reporting periods of Oct. 1, 2013 through Sept. 30, 2017.
- Hospital-within-Hospital (Hw) LTCHs. For this four-year period, HwH LTCHs would be held to the more lenient threshold of 50% (with a 75% threshold for rural LTCHs and LTCHs in MSA-dominant locations).
- Freestanding LTCHs. For this four-year period, freestanding LTCHs would be exempt from the 25% Rule.
- Grandfathered LTCHs. The approximately 17 “grandfathered LTCHs” would be permanently exempt from the 25% Rule.
- 25% Rule Study. By September 2016, CMS would be required to report to Congress on whether there is further need for the 25% Rule.

Moratorium on New LTCH Beds & Facilities

A two-plus year moratorium on new LTCH beds and facilities, with no exceptions, would be implemented from Jan. 1, 2015 through Sept. 30, 2017.

New LTCH Quality Measure

By October 2015, the HHS Secretary would be required to establish a quality measure on functional status for change in mobility for patients requiring ventilator support.

Calvary LTCH

In its LTCH rulemaking for fiscal years 2015 or 2016, CMS would report on a study of payments and regulations for the single cancer LTCH, Calvary Hospital in the Bronx, NY, including whether this hospital should return to being paid under the former cost-based payment system known as TEFRA.

December 30, 2013

4:10 pm

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF DAVIDSON

CON Application CN1312-047

NAME OF FACILITY: Select Specialty Hospital - North Knoxville

I, Paul W. Ambrosius, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Paul W. Ambrosius
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 30th day of Dec., 2013,
witness my hand at office in the County of Davidson, State of Tennessee.

Sharon W. Wiggs
NOTARY PUBLIC

My commission expires May 5, 2015.



HF-0043

Revised 7/02